



## Nova Ljubljanska banka d.d., Ljubljana

(incorporated as a joint stock company (delniška družba) in the Republic of Slovenia)

### EUR 120,000,000 Callable Subordinated Tier 2 Notes due 2029

ISIN XS2080776607, Common Code 208077660

Issue Price: 100 per cent.

Nova Ljubljanska banka d.d., Ljubljana (the "**Issuer**" or "**NLB**") will issue on 19 November 2019 (the "**Issue Date**") EUR 120,000,000 Callable Subordinated Tier 2 Notes due 2029 (the "**Notes**") in the denomination of EUR 100,000 (the "**Specified Denomination**") each.

The Notes will bear interest at the rate of 3.650 per cent. per annum (the "**First Rate of Interest**") from and including 19 November 2019 (the "Interest Commencement Date") to but excluding 19 November 2024 (the "**Reset Date**") and thereafter at the relevant Reset Rate of Interest from and including the Reset Date to but excluding the Maturity Date. The "**Reset Rate of Interest**" will be the sum of the 5-years mid swap rate per annum (the "**Reference Rate**") plus the Margin of 3.833 per cent. (all as defined and further described in the terms and conditions of the Notes (the "**Terms and Conditions**")). Interest will be paid annually in arrear on 19 November in each year, commencing on 19 November 2020.

Subject to certain limitations and conditions as described in the Terms and Conditions, the Notes shall be redeemed at their principal amount on 19 November 2029 (the "**Maturity Date**"). The Issuer may redeem the Notes in whole, but not in part, at their principal amount on the fifth anniversary of the Issue Date, subject to certain limitations and conditions as described in the Terms and Conditions.

The Issuer may further redeem the Notes in whole, but not in part, at their principal amount upon occurrence of certain changes in the applicable tax or regulatory treatment of the Notes (each as described in the Terms and Conditions) or if the Issuer does not obtain the permission of the Competent Authority pursuant to Article 129(2) of the Slovenian Banking Act (*Zakon o bančništvu (ZBan-2)*) – ("**ZBan-2**") to include the Notes in whole in the calculation of its Tier 2 capital pursuant to Article 71 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (the "**CRR**"), as amended or replaced from time to time in particular by the Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019, all subject to certain limitations and conditions as described in the Terms and Conditions.

The Notes, as to form and content, and all rights and obligations of the holders of the Notes (the "**Noteholders**") and the Issuer will be governed by the laws of Germany (except for the status condition which will be governed by the laws of Slovenia).

The Notes will initially be represented by a temporary global note in bearer form (the "**Temporary Global Note**"). Interests in the Temporary Global Note will be exchangeable, in whole or in part, for interest in a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Note**") on or after the date 40 days after the later of the commencement of the offering and the Issue Date, upon certification as to non-U.S. beneficial ownership.

This offering circular (the "**Offering Circular**") does not constitute a prospectus within the meaning of Regulation (EU) No 2017/1129 of the European Parliament and of the Council of 14 June 2017 (as amended, the "**Prospectus Regulation**"). Neither the Luxembourg Financial Supervisory Authority (*Commission de Surveillance du Secteur Financier*), the Slovenian Securities Market Agency (*Agencija za trg vrednostnih papirjev*), nor any other "competent authority" (as defined in the Prospectus Regulation) has approved this Offering Circular or reviewed information contained in this Offering Circular.

This Offering Circular constitutes a prospectus for the purpose of Part IV of the Luxembourg Law of 16 July 2019 on Prospectuses for Securities, as amended. Application has been made to list the Notes on the official list (the "**Official List**") of the Luxembourg Stock Exchange and for admission to trading of the Notes on the Euro MTF Market operated by the Luxembourg Stock Exchange, which is a multilateral trading facility for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended, ("**MiFID II**"), and, therefore, not an EU-regulated market.

This Offering Circular will be published in electronic form together with all documents incorporated by reference on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

This Offering Circular does not constitute an offer to sell, or the solicitation of an offer to buy, the Notes in any jurisdiction where such offer or solicitation is unlawful. **The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons.**

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Following the Reset Date, interest amounts payable under the Notes are calculated by reference to the annual swap rate for swap transactions denominated in Euro with a term of 5 years, which appears on the Reuters Screen Page ICESWAP2 and which is provided by ICE Benchmark Administration Limited ("**IBA**"). As at the date of this Offering Circular, IBA appears on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**Benchmark Regulation**").

Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider the suitability of the Notes as an investment in light of their own circumstances and financial condition. Investing in the Notes involves certain risks. Please review the section entitled "**Risk Factors**" beginning on page 1 of this Offering Circular.

Joint Lead Managers

UBS INVESTMENT BANK

Nova Ljubljanska banka d.d., Ljubljana

15 November 2019

## RESPONSIBILITY STATEMENT

The Issuer, with registered office in Ljubljana, Slovenia, accepts responsibility for the information contained in this Offering Circular and hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of their knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer further confirms that (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries taken as a whole (the "**NLB Group**" or the "**Group**") and to the Notes which is material in the context of the issue and offering of the Notes, including all information which, according to the particular nature of the Issuer and the Notes is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Group and of the rights attached to the Notes; (ii) the statements contained in this Offering Circular relating to the Issuer, the Group and the Notes are in every material particular true and accurate and not misleading; (iii) there are no other facts in relation to the Issuer, the Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (iv) reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

## NOTICE

No person is authorised to give any information or to make any representation other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Lead Managers (as defined in the section "**Subscription and Sale of the Notes**").

This Offering Circular should be read and understood in conjunction with any documents incorporated herein or therein by reference.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Offering Circular does not constitute an offer of Notes or an invitation by or on behalf of the Issuer or the Joint Lead Managers to purchase any Notes. Neither this Offering Circular nor any other information supplied in connection with the Notes should be considered as a recommendation by the Issuer or the Joint Lead Managers to a recipient hereof and thereof that such recipient should purchase any Notes.

This Offering Circular reflects the status as of its date. The offering, sale and delivery of the Notes and the distribution of this Offering Circular may not be taken as an implication that the information contained herein is accurate and complete subsequent to the date hereof or that there has been no adverse change in the financial condition of the Issuer since the date hereof.

To the extent permitted by the laws of any relevant jurisdiction, neither UBS Europe SE nor any of its affiliates nor any other person mentioned in this Offering Circular, except for the Issuer, accepts responsibility for the accuracy and completeness of the information contained in this Offering Circular or any document incorporated by reference, and accordingly, and to the extent permitted by the laws of any relevant jurisdiction, none of these persons accept any responsibility for the accuracy and completeness of the information contained in any of these documents. UBS Europe SE has not independently verified any such information and accept no responsibility for the accuracy thereof.

This Offering Circular does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required to inform themselves about and to observe any such restrictions. For a description of the restrictions applicable in the EEA, the United States of America and the United Kingdom, see "*Subscription and Sale of the Notes – Selling Restrictions*".

For the avoidance of doubt the content of any website referred to in this Offering Circular does not form part of this Offering Circular and the information on such websites has not been scrutinised or approved by the Luxembourg Stock Exchange.

The language of this Offering Circular is English.

In this Offering Circular all references to "€", "EUR" or "Euro" are to the currency introduced at the start of the third stage of the European Economic and Monetary Union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended.

### **MIFID II PRODUCT GOVERNANCE / TARGET MARKET: PROFESSIONAL INVESTORS AND ECPS ONLY**

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

### **PRIIPS REGULATION / PROHIBITION OF SALES TO EEA RETAIL INVESTORS**

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Joint Lead Managers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

### **BENCHMARK REGULATION: STATEMENT ON REGISTRATION OF BENCHMARK ADMINISTRATOR**

Following the Reset Date, interest amounts payable the Notes are to be calculated by reference to the annual swap rate for swap transactions denominated in Euro with a term of 5 years, which appears on the Reuters Screen Page ICESWAP2 and which is provided by IBA. As at the date of this Offering Circular, IBA appears on the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the Benchmark Regulation.

### **STABILISATION**

IN CONNECTION WITH THE ISSUE OF THE NOTES, UBS EUROPE SE (THE "**STABILISING MANAGER**") (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements. A forward-looking statement is a statement that does not relate to historical facts and events. They are based on analyses or forecasts of future results and estimates of amounts not yet determinable or foreseeable. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" and similar terms and phrases, including references and assumptions. This applies, in particular, to statements in this Offering Circular containing information on future earning capacity, plans and expectations regarding the Group's business and management, its growth and profitability, and general economic and regulatory conditions and other factors that affect it.

Forward-looking statements in this Offering Circular are based on current estimates and assumptions that the Issuer makes to the best of its present knowledge. These forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results, including the Group's financial condition and results of operations, to differ materially from and be worse than results that have expressly or implicitly been assumed or described in these forward-looking statements. The Group's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Offering Circular to become inaccurate. Accordingly, investors are strongly advised to read the section "*Description of the Issuer and the Group*" of this Offering Circular. This section includes more detailed descriptions of factors that might have an impact on the Group's business and the markets in which it operates.

In light of these risks, uncertainties and assumptions, future events described in this Offering Circular may not occur. In addition, neither the Issuer nor the Joint Lead Managers assume any obligation, except as required by law, to update any forward-looking statement or to conform these forward-looking statements to actual events or developments.

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## **RISK FACTORS**

*Before deciding to purchase the Notes, investors should carefully review and consider the following risk factors and the other information contained in this Offering Circular. Should one or more of the risks described below materialise, this may have a material adverse effect on the business, prospects, shareholders' equity, assets, financial position and results of operations or general affairs of the Issuer or the Group. Moreover, if any of these risks occur, the market value of the Notes and the likelihood that the Issuer will be in a position to fulfil their payment obligations under the Notes may decrease, in which case the holders of the Notes (the "Noteholders") could lose all or part of their investments. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other unknown reasons than those described below. Additional risks of which the Group is not presently aware could also affect the business operations of the Group and have a material adverse effect on the Group's business activities and financial condition and results of operations. Prospective investors should read the detailed information set out elsewhere in this Offering Circular (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

*Words and expressions defined in the Terms and Conditions of the Notes below shall have the same meanings in this section.*

*Potential investors should, among other things, consider the following:*

### **RISKS RELATING TO THE ISSUER AND THE GROUP**

#### **1. Risks related to the environment in which the Issuer and the Group operates**

##### **1.1 *The NLB Group is subject to risks arising from the global macroeconomic environment***

The financial services industry generally prospers in conditions of economic growth, stable geopolitical conditions, transparent, liquid and buoyant capital markets and positive investor sentiment. During recessionary periods, there may be less demand for loan products and a greater number of customers may default on their loans and other obligations. Interest rate rises may also have a negative impact on the demand for mortgages and other loan products. The NLB Group is affected by general economic and geopolitical conditions, which can cause its financial condition and results of operations to fluctuate from year to year as well as on a long-term basis. In addition, downward trends in the global macroeconomic environment, including the ongoing migrant crisis which continues to affect public expenditure and human capital in the region, could negatively impact the economies of Southeastern Europe, whose nascent economic recoveries have been assisted by export-oriented growth, which could affect the NLB Group's business (see "*Risk Factors - Risks related to the environment in which the Issuer and the Group operates—The NLB Group is subject to risks arising from the Slovenian macroeconomic and political environment*" below).

The macroeconomic environment is the major driver of risk to the NLB Group's earnings and financial stability, in particular, due to the potential effects on its asset quality. Weaker macroeconomic conditions may lead to a decline in net interest margins, credit quality and loan portfolio growth, as well as further corrections to prices of real estate and other property held as collateral for loans, which may lead to continued large loan impairment charges. These risks materialised during and following the global economic crisis of 2008, wherein the contagion effect has influenced Slovenian and Southeastern European economies and their respective financial markets. Economic recession in countries that represented important trading partners of the Republic of Slovenia caused the country's export-driven private sector to suffer substantial losses, while a large number of businesses went bankrupt, all of which had a major impact on economic activity and unemployment. These factors, combined with extensive leverage of the Slovenian corporate sector that had been suffering from falling profitability due to decreasing economic activity at the time, impacted the entire banking sector, with NLB reporting the largest financial losses in the Slovenian banking sector during 2013. In addition, the Slovenian stock market crash in 2008 induced a devaluation of equities, which were used as collateral in lending and such devaluation has consequently diminished banks' capital.

In addition, volatility in credit, currency and equity markets globally may result in uncertainty that could affect all banks, including the NLB Group. Market volatility during the global financial crisis led to, and may in the future lead to, the following negative effects (amongst others) for the banking industry:

- increased cost of funding and/or reduced availability of funding;
- deterioration in the value and liquidity of assets (including collateral);
- inability to price, or difficulty pricing, certain assets;
- higher provisions for bad and doubtful debts;
- an increased likelihood of customer and counterparty default and credit losses;
- mark-to-market losses in the value of assets and liabilities;
- economic exposures from hedging activities; and
- lower growth, business revenues and earnings.

No assurance can be given as to future economic conditions in any market or as to the possibility of improvement in any market. If economic conditions deteriorate or stagnate in any of the NLB Group's main markets, its business, financial condition, results of operations, liquidity and prospects are likely to be negatively affected.

#### **1.2 *The NLB Group is subject to risks arising from the Slovenian macroeconomic and political environment***

The Republic of Slovenia is the NLB Group's most important geographic area of operation and, despite a positive trend in GDP growth in recent years, with a growth rate of 2.5 per cent. year-on-year in the second quarter of 2019, according to information provided by Eurostat, its economic performance remains vulnerable to domestic and external economic conditions and shocks. Such factors include delayed restoration of economic activity in the Slovenian private sector and dependency on the level of economic activity in its largest export partners, which mostly consist of EU countries. Exports have been a key driver of economic recovery in the Republic of Slovenia and represent an important segment of GDP. Thus, negative changes in the volume of exports and trade balance for an extended period of time could have material effects on the country's fiscal budget, public debt and lower economic activity.

A prolonged deterioration in the macroeconomic environment in the Republic of Slovenia would likely have a significant effect on budget revenues and may result in an increase in the budget deficit, which may also lead to an increase in public debt. Additionally, given current demographic trends, public pension liabilities are likely to increase in the foreseeable future, which may contribute towards an increase in the budget deficit.

Slovenia's economy is also subject to the risk of a possible decline in domestic demand. Although domestic consumption has been robust in recent years, making a significant contribution to GDP growth, it is still affected by a high savings rate, which is increasing despite low interest rates. If the economic situation in the Republic of Slovenia deteriorates, this could result in decreased economic activity that would eventually lead to higher unemployment, which would in turn deter private and household consumption. This could significantly weaken demand for financial products, which could have a negative effect on the NLB Group.

There can be no assurance that NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects will not be materially adversely affected as a result of one or more of these or any other factors relating to the macroeconomic and political condition of the Republic of Slovenia. This could impact the Issuer's ability to perform its obligations under the Notes.

#### **1.3 *The NLB Group is subject to risks arising from the macroeconomic and political environment in Southeastern Europe***

The Southeastern European region, which includes Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia, is the NLB Group's most significant geographic area of operations outside of the

Republic of Slovenia and the economic conditions in the region are therefore important to the NLB Group's results of operations and financial condition.

Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia are not members of the EU and may therefore have less developed regulation and control standards than other countries in which the NLB Group operates. In recent years, EU membership prospects have served as an incentive for political, fiscal and monetary reforms. However, the membership process is a protracted procedure and remains in the early stages. New laws are being enacted within many of these markets, but many remain untested, and laws, regulations and case law applicable to the securities and financial services industries and many of the transactions in which the NLB Group is involved are still evolving. The laws and courts of these countries have not been fully tested in contract enforcement and other types of commercial disputes. These conditions can lead to delays in enforcement proceedings, restructuring and other aspects of the NLB Group's operations in these markets. The NLB Group is also subject to the risks of price controls, capital controls and other restrictive government actions in these markets. In addition, the laws on foreign investment currently allow free repatriation of funds to the Republic of Slovenia. However, no assurance can be given that these provisions will not be modified or repealed in the future.

Although North Macedonia's positive macroeconomic performance is expected to continue, its current unemployment rate was still relatively high at 17.5 per cent. as at 30 June 2019, according to the State Statistical Office of the Republic of North Macedonia. Inflation has been stagnating from the end of 2018 and as at 30 June 2019 showed 1.2 per cent. annual growth. North Macedonia's economy expanded by 3.1 per cent. year-on-year in the second quarter of 2019. Current performance indicators, relating to industry and trade for activity in the six months ended 30 June 2019 generally point to solid economic growth, while construction activity continues to decline. Additionally, future growth projections rely heavily on the stability of a government, an assumption of political and social stability and the management of political and ethnic tensions. In recent years, political instability has culminated in multiple boycotts of the Assembly of the Republic of North Macedonia by opposition parties, resulting in uncertainty. This political condition could affect progress towards North Macedonia's formal accession to the EU.

Serbia's economy expanded by 2.9 per cent. year-on-year in the second quarter of 2019, while its unemployment rate decreased to 10.3 per cent. as at 30 June 2019, according to the Statistical Office of the Republic of Serbia. Non-performing loans reduced to 6.4 per cent. as at 30 September 2018, according to the National Bank of Serbia. Political risks in Serbia include potential delays to the implementation of major fiscal and economic reform and political interference and opacity in privatisation processes, administration and judicial proceedings. Serbia also experiences widespread corruption at all levels in its society and ongoing regional tensions between Kosovars and Serbs in northern Kosovo. While Serbia's prospects for joining the EU have improved in recent years, in part due to Serbia's efforts to improve relations with Kosovo, membership is unlikely to be obtained in the near term without significant improvements to the diplomatic relationship between Serbia and Kosovo.

Montenegro's economy improved in 2018, growing 5.1 per cent. and its economy expanded by 3.2 per cent. year-on-year in the second quarter of 2019. The country's future is heavily dependent on tourism and external investment growth, which in turn are sensitive to security and stability risks. Its economy also suffers from a high unemployment rate which stood at 14.3 per cent. as at 30 June 2019, according to the Statistical Office of Montenegro, partially due to a lack of qualified personnel. Montenegro became a member of NATO in June 2017 although Russia, whose presence in finance and property markets is significant in Montenegro, disapproved. The country also suffers from high levels of political corruption and organised crime, the politicisation of justice, slow and inefficient administrative procedures and insufficient controls over the public budget and public debt. The nation's highway project, which is expected to benefit from economic growth in the medium term, is also expected to cause further strain on government finances and could lead to credit rating downgrades and rising debt servicing costs, which could negatively impact the NLB Group's operations.

Bosnia and Herzegovina's economy grew by 2.6 per cent. year-on-year in the second quarter of 2019. Despite recent recovery, the country's growth potential is limited by political and institutional instability and a weak labour market. It also suffers from a high registered unemployment rate which stood at 33.1 per cent. as at 30 June 2019, according to the Agency for Statistics of Bosnia and Herzegovina. Limited job opportunities have resulted in a large black market, as well as a dependency on remittances from expatriate workers. The country is hindered by underdeveloped institutions, low civil service capacity, a weak and inefficient judiciary and a complex system of public administration with multiple layers of government, which affects the efficiency of implementing structural and economic reforms. The legal and institutional

framework remains weak and inadequate to effectively prevent corruption; corruption continues to be widespread and the political commitment to fighting corruption may not translate into concrete results, which can negatively affect business activity in the country and the level of foreign investments. Political instability stems from the separatist sentiment from the largely autonomous Republika Srpska, which is reluctant to adhere to certain federal laws of Bosnia and Herzegovina and resists action to strengthen central state institutions. This ongoing political instability could delay Bosnia and Herzegovina's accession to the EU and limit the country's competitiveness.

While Kosovo is characterised by strong current and forecasted economic growth, with gross domestic product (GDP) growth of 4.1 per cent. year-on-year in the second quarter of 2019, its economy suffered from an unemployment rate of 25.3 per cent. as at 30 June 2019 and limited job opportunities both of which have resulted in a large grey and black market economy and a dependency on remittances from expatriate workers, which continue to represent a significant portion of the country's economy. Furthermore, ongoing regional and ethnic tensions between Kosovars and Serbs in northern Kosovo and widespread systemic corruption continue to impede economic and political development. Furthermore, Kosovo has not yet been recognised by Serbia as an independent state.

There can be no assurance that NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects will not be materially adversely affected as a result of any instability or economic deterioration in Southeastern Europe.

#### 1.4 *The NLB Group may be negatively affected by increased competition*

The NLB Group operates in number of a highly competitive markets, alongside a significant number of competitors, including subsidiaries of major European banking groups. Increasing competition in the banking sector and/or the inability of NLB or any other NLB Group member to compete effectively in its market may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

#### 1.5 *The results of the United Kingdom's exit from the European Union (Brexit), the dissolution of the EMU or the reduction in the European Union may have a negative effect on global economic conditions, financial markets and our business, which could have an adverse effect on the NLB Group's business, financial condition and results of operations*

The NLB Group operates solely in Europe. In June 2016, a majority of voters in the UK elected to withdraw from the EU in a national referendum. On 29 March 2017, the government of the UK invoked Article 50 of the Treaty on the Functioning of the European Union ("TFEU") and formally initiated the process of negotiations with the EU to agree the terms upon which the UK would leave the EU. Despite there being limited direct links between the economies of the UK and the Republic of Slovenia, the referendum and the withdrawal process have created significant uncertainty about the future relationship between the UK and the EU. On 17 October 2019, the UK Government and the EU Commission President announced that they had reached an agreement regarding the terms of the UK's withdrawal from the EU and framework of the future relationship between the UK and the EU however, this agreement is subject to UK parliamentary approval and negotiations to adopt Brexit plans are currently scheduled to end on or before 31 January 2020. Should the UK leave the EU without a withdrawal agreement, this is expected to have a negative impact on both the British and EU economies.

These developments have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets in Europe with regard to the passporting of banks and financial institutions. Asset valuations, currency exchange rates and credit ratings may in particular be subject to increased market volatility. A lack of clarity about future UK laws and regulations, as the UK determines which EU laws to replace or replicate in the event of a withdrawal, could depress economic activity and restrict access to capital. If the UK and the EU are unable to negotiate acceptable withdrawal terms, barrier-free access between the UK and other EU member states ("EU Member States") or in the EEA overall could be diminished or eliminated. Any of these factors could have an adverse effect on the NLB Group's business, financial condition and results of operations.

The effects on the Slovenian and European economies of the dissolution of the EMU, the exit of one or more EU member states from the EMU and/or the redenomination of financial instruments from the euro to a different currency, are impossible to predict fully but would likely result in significant market

dislocation, heightened counterparty risk and adversely affect the ability to manage market risk. The NLB Group anticipates that such an event would be likely to have an adverse impact on the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting the NLB Group's net interest income and net interest margin.

## **2. Risks relating to the credit risk and capital adequacy**

### **2.1 *The NLB Group is exposed to credit risk and has in the past experienced material increases in non-performing loans, leading to significant increases in impairment allowances, which have in the past materially adversely affected the NLB Group's business, financial condition and results of operations***

The NLB Group is exposed to the risk that its borrowers may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. This risk is materially enhanced in times of economic slowdown.

NLB has taken several measures in recent years to manage non-performing loans or loans with higher risk, including the introduction and development of a restructuring and work-out unit, the introduction of an early warning system and a loan watch committee, and put in place a new credit process and rating methodology, as well as new scoring models for certain segments. Notwithstanding these new procedures and the improvements in the NLB Group's credit risk management, there can be no assurance that these procedures will be sufficient to reduce NLB's and the NLB Group's non-performing loans or influence the impairments which reflect expected credit losses. Any potential increase in the impairment allowances for loans and advances to customers, any potential loan losses in excess of the previously determined impairment allowances for loans and advances to customers with respect thereto or any potential changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

### **2.2 *The NLB Group is exposed to risks in relation to market impacts on collateral value and the enforcement of such collateral***

The NLB Group generally seeks collateral for its loans. A significant proportion of this collateral takes the form of mortgages or other security over assets and there are particular risks associated with this form of collateral when a client defaults. In addition, part of the collateral taken by the NLB Group comprises share pledges. The value of this collateral can be adversely affected by falling stock market values (in the case of listed shares) or adverse developments in a business (in the case of non-listed shares). Additionally, guarantees by the Republic of Slovenia represent a significant amount of collateral, with such guarantee to one customer valued at approximately EUR 488 million. In addition, the NLB Group may experience difficulty in enforcing certain collateral, particularly in the case of non-listed shares.

In addition to operations in the Republic of Slovenia, the NLB Group's operations include banking subsidiaries in Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia. In connection with its loans or other banking operations in the above-mentioned jurisdictions and in Croatia, the NLB Group holds mortgages over assets, as well as movable collateral, including machinery, equipment, vehicles and other forms of collateral. The procedures allowing for the sale or other enforcement efforts in relation to a mortgage on real property in particular may be protracted and difficult to implement in practice. In cases where the NLB Group is unable to enforce effectively against real estate or other collateral granted to it, this will delay recovery of the relevant loan and could expose the NLB Group to increased losses on the relevant loan in the case of falling property markets.

Enforcement of collateral located outside the EU may prove to be more difficult, more time consuming and more expensive than for collateral located within the EU, and may be subject to different requirements and restrictions than for collateral located in the EU.

If the NLB Group is not able to enforce security over collateral held in or outside the EU in a timely manner or at all, it may have an adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flow.

### **2.3 *A substantial portion of the NLB Group's loans are secured by property interests and the NLB Group is therefore exposed to any downturn in the property markets in which it operates,***

***including various disrupting factors in Southeastern Europe which influence volatility in the local real estate market***

Of the EUR 2,850 million and EUR 2,983 million of lending in NLB's credit portfolio secured by collateral as at 30 June 2019 and 31 December 2018, respectively, EUR 1,650 million and EUR 1,646 million was secured by real estate collateral. Of the EUR 4,380 million and EUR 4,484 million of lending in the NLB Group's credit portfolio secured by collateral as at 30 June 2019 and 31 December 2018, respectively, EUR 2,937 million and EUR 2,889 million was secured by real estate collateral.

In 2015, prices of residential real estate in the Republic of Slovenia started to grow after a period of substantial decline. Although the real estate market is currently favourable, a downturn in economic activity and subsequently in the real estate market could adversely affect the value of the collateral pool.

The NLB Group applies a cash flow-based credit policy that considers the repayment capacity of a customer when extending on or off balance loans and other exposures. This policy also applies to all lendings backed or collateralised by residential or commercial real estate. However, circumstances may change over time. Any economic downturn in the countries in which the NLB Group operates, including declines in the value of real estate and increases in unemployment rates, could adversely affect NLB's and the NLB Group's collateral coverage of its loan portfolio with respect to new and existing non-performing loans and generate increases in impairment losses, which could materially affect NLB's and the NLB Group's financial condition and results of operations. In addition, the effects of declining property values on the wider economies in which the NLB Group operates may also contribute to higher default rates and impairment losses on other loans extended by them.

**2.4 *The NLB Group has concentrations of both loans and deposits geographically and in terms of customer type. These concentrations, along with an associated concentration of its investment portfolio, expose the NLB Group to enhanced levels of risk***

The NLB Group's loans and deposits are geographically concentrated. The NLB Group's corporate, retail and SME loans are largely concentrated in the Republic of Slovenia (56.2 per cent. of funded loans as at 30 June 2019, 57.4 per cent. as at 31 December 2018). With respect to liabilities, 65.9 per cent. and 66.2 per cent. of its deposits were from Slovenian depositors at 30 June 2019 and 31 December 2018, respectively.

The NLB Group's investment portfolio also has a concentration of Slovenian credit risk, with 29.4 per cent. and 30.1 per cent. of the portfolio representing Slovenian Government and private sector bonds held by the NLB Group as at 30 June 2019 and 31 December 2018, respectively. Accordingly, the NLB Group is particularly exposed to any future downturn in the economy of the Republic of Slovenia.

In addition, the NLB Group's loan portfolio is concentrated in relation to its largest corporate customers (as at 30 June 2019 the NLB Group's 10 and 20 largest customers accounted for 9.9 per cent. and 12.4 per cent., respectively, of the NLB Group's total loan portfolio). As a result, any decision by one or more of these customers to move its business to another bank or any default by one or more of these customers would likely have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

**2.5 *NLB may be required to increase its capital in future for a range of different reasons, including as a result of changing regulatory requirements, and may experience material difficulty in raising any such additional capital and other Group banks are subject to capital requirements in their own jurisdictions of operation and any failure by one or more of these banks to maintain appropriate levels of capital could have a material adverse effect on the NLB Group***

As of 1 March 2019, NLB is required to maintain, on a consolidated basis, an overall capital requirement ("OCR") of at least 14.75 per cent. (11.25% CET 1 requirement; 12.75% Tier 1 Capital Requirement), being composed of an 11.25 per cent. of total supervisory review and evaluation process capital requirement ("TSCR") (7.75% CET 1 requirement; 9.25% Tier 1 Capital Requirement) and a 3.5 per cent. combined buffer requirement (being composed of a 2.5 per cent. capital conservation buffer, 1.0 per cent. other systemically important buffer and 0 per cent. countercyclical buffer, being a CET 1 requirement only) based on an European Central Bank ("ECB") decision as of 8 February 2019, in accordance with EU regulations on capital adequacy and in accordance with discretion given by legislation to competent supervisory authorities, including the Bank of Slovenia and the ECB (see – "Description of the Issuer and the Group –

*Capital Adequacy*" for more information regarding these capital requirements and the Issuer's capital position). As the regulations may change in future, capital requirements and the required capital adequacy ratio could increase in future.

Should NLB be required to increase its capital in future for any reason, including continued significant losses, no assurance can be given that it will be successful in so doing on favourable terms, in a timely manner or at all. NLB's ability to obtain additional capital may be restricted by a number of factors, including:

- its ability to obtain any required regulatory approvals;
- decisions of its shareholders with respect to the approval of future capital increases;
- general market conditions for capital-raising activities by commercial banks;
- the financial condition, results of operations and cash flows of NLB at the time of the proposed capital increase; and
- the credit rating of NLB at the time of the proposed capital increase.

Any failure by NLB to comply with applicable capital adequacy regulations or otherwise to maintain sufficient levels of capital to conduct its business could have a material adverse effect on NLB's and the NLB Group's business, financial condition and results of operations. Moreover, a breach of existing laws relating to the minimum capital adequacy and other regulatory ratios could result in NLB being subject to administrative sanctions which could result in an increase in its operating costs and an adverse effect on its reputation, and, consequently, could have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

Each of the other banks in the NLB Group is subject to local regulations relating to required levels of capital, including:

- local capital regulations following Basel III guidelines, subject to different stages of convergence with EU regulation;
- a minimum required level of capital adequacy which is, in general, higher than 8 per cent., with most countries setting NLB Group entities minimum levels above that (12 per cent. in Bosnia and Herzegovina, Kosovo and 10 per cent. in Montenegro). In line with newly adopted regulation, which is more closely aligned with CRR rules, minimum capital adequacy requirements in North Macedonia and Serbia were set at 8 per cent. However, these requirements are not directly or fully comparable to the EU requirement for a minimum required level of capital adequacy, as the definitions of risk-weighted assets ("**RWA**") and capital may differ; and locally defined pillar 2 requirements ("**ICAAP**") and capital deductions referring to provisions as a result of differences between local standards and IFRS, whose implementation and enforcement may depend on the local regulator's view and guidance.

Should any NLB Group banking member be required to increase its capital for any reason, it is likely to look first to NLB (as principal shareholder) to assure such capital increase, but not always necessary. If NLB was unable to provide the required capital, its shareholding in the banking member concerned may be diluted by the issue of additional shares or sale of the capital investment to the other potential shareholders. Each of these outcomes could adversely affect the NLB Group's business, financial condition, results of operations, cash flows and prospects.

### 3. **Risks relating to liquidity, market conditions and operational risk**

#### 3.1 ***The NLB Group is subject to the risk that liquidity and sources of funding that it currently utilises may not always be readily available***

Liquidity risk is the risk that an entity will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. The NLB Group's funding cost is currently relatively low due to

its funding structure and low market interest rates; however, they could increase due to changes in market conditions or new regulatory requirements, including developments surrounding the implementation of the minimum requirement for own funds and eligible liabilities ("**MREL**") under the CRD V Package, which may require NLB to increase its long-term funding requirements. As the result of such developments, the NLB Group must reach an MREL requirement, which was set to 17.93% of total liabilities and own funds at the sub-consolidated level of NLB and the non-core part of the NLB Group (the "**NLB Resolution Group**") from 30 June 2023 onwards (see – "*Description of the Issuer and the Group – Capital Adequacy*").

However, even the perception that a financial institution is experiencing greater liquidity risk can cause significant damage to the institution. If the NLB Group's short-term funding sources become volatile or are unavailable, the NLB Group would be required to utilise other, more expensive, sources to meet its funding needs, such as collateralised borrowing or asset sales. The NLB Group's ability to sell assets at a commercially desirable price or at all may be impaired if other market participants are seeking to sell similar assets at the same time or are not in a position to finance themselves, or when the market value of assets, including financial instruments underlying derivative transactions to which the NLB Group members are party, is difficult to ascertain, as has occurred at certain times during and since the global financial crisis. In addition, financial institutions with which the NLB Group interacts may exercise set-off rights or rights to require additional collateral. Any of these or other events could impair the NLB Group's access to liquidity.

Future disruptions, uncertainty or volatility in the capital and credit markets could limit the NLB Group's ability to refinance maturing liabilities with long-term funding. The availability to the NLB Group of any additional financing it may need will depend on a variety of factors, such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, the volume of trading activities, the NLB Group's financial condition, its credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of the NLB Group's financial prospects if, for example, the NLB Group experiences significant deposit outflows or if the level of the NLB Group's business activity decreases due to a market downturn. In particular, the NLB Group's access to funds may be impaired if regulatory authorities or rating agencies impose additional regulatory capital requirements or downgrade the NLB Group's debt rating. Any of these developments may limit the NLB Group's ability to raise additional capital to support business growth or to counterbalance the consequence of losses or increased regulatory capital requirements, and could have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, liquidity and prospects.

In addition, as is the case with many banks, the NLB Group relies on customer deposits to meet a substantial portion of its funding requirements. Such deposits are subject to fluctuation due to certain factors outside the NLB Group's control, such as any possible loss of confidence and competitive pressures, which could result in a significant outflow of deposits within a short period of time. A material decrease in the NLB Group's deposits could have a negative impact on the NLB Group's liquidity.

### **3.2 *NLB's borrowing costs, access to the capital markets, reputation and competitive position depend significantly on its credit ratings and the credit rating of the Republic of Slovenia***

Credit ratings represent an important component of the NLB Group's liquidity profile and affect the cost and other terms on which the NLB Group is able to obtain funding. Changes to the NLB Group's credit ratings reflect, apart from changes to the rating of the Republic of Slovenia, a series of factors intrinsic to the NLB Group. NLB's credit rating could be impacted by any change to the risk profile of the Republic of Slovenia, as reflected in the sovereign credit rating of the Republic of Slovenia.

Any downgrade in NLB's or the Republic of Slovenia's credit ratings could materially adversely affect NLB's liquidity including by negatively impacting its risk profile and competitive position, undermining confidence in the NLB Group, increasing its borrowing costs, limiting its access to the capital markets, or limiting the range of counterparties willing to enter into transactions with NLB and other NLB Group members. NLB's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure of the NLB Group to successfully implement its strategies. A downgrade of NLB's credit ratings could lead to reputational damage for the NLB Group, which may also lead to a loss of customers and counterparties that could in turn have an adverse effect on the NLB Group's business, results of operations and financial condition.

### 3.3 ***The NLB Group is exposed to risks related to volatility in global liquidity in financial markets resulting from the monetary policies of central banks***

Central banks around the world have made efforts to increase liquidity in the financial markets, by taking measures such as increasing the amounts they lend directly to financial institutions and lowering interest rates. However, it is not certain how long or on what terms these central bank schemes will continue. Central banks may tighten their monetary policies to increase interest rates back to levels closer to historical norms and eliminate quantitative easing.

A prolonged period of low interest rates, such as in the current market, carries the risk that market participants may have taken on more risk than they expected in a 'search for yield', leaving them exposed to a tightening of monetary policy that takes place faster than expected tightening of monetary policy. Changes to policy rates and inconsistent monetary policies by the U.S. Federal Reserve Board of Governors and other central banks, including the ECB, may also result in volatility in capital flows, adverse fluctuations in currency markets, a suppression of demand and a reduction in the availability of credit, which may limit economic activity in the Republic of Slovenia or elsewhere. In addition to market participants, corporations and households may be negatively impacted by rising interest rates and their ability to make payments on debt or loans could be negatively affected, which could lead to rising defaults, further economic slowdown and negatively impact future economic development in areas in which the NLB Group operates.

### 3.4 ***Fluctuations in interest rates may adversely affect the NLB Group's results***

The Group assesses its exposure to interest rate risk to be moderate and it arises mainly from the banking book positions. In recent years the Group recorded a growth of fixed interest rate loans and long-term banking book securities on the assets' side and transformation of deposits from term to sight as a consequence of low interest rate environment and excessive liquidity.

The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and fund transfer pricing policy. An important part of the interest rate risk management is the banking book securities portfolio, which is used to maintain adequate liquidity reserves and at the same time also contribute to the stability of the interest rate margin. In addition, the Group also uses plain vanilla derivative financial instruments for interest rate risk management, such as interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements.

NLB's and the NLB Group's profitability is to a large extent based on their respective net interest income levels. This is the reason that stabilising net interest income is NLB's important goal when managing interest rate risk. While the NLB Group monitors its interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments, any significant and unanticipated interest rate movements in the Republic of Slovenia and the Eurozone or in other markets where the NLB Group operates could adversely affect NLB's and the NLB Group's operations and financial condition.

### 3.5 ***The NLB Group is exposed to risks related to exchange rate fluctuations***

The NLB Group operates its main business activities in euro, which is the reporting currency of the Group. Subsidiary banks conduct business mainly in euro (in addition to their domestic currencies). The Group's net open foreign exchange position from transactional risk amounts to less than 1.1% of capital.

For the purposes of the NLB Group consolidated financial statements, transactions executed in currencies other than euro are converted into euro at the exchange rate prevailing at the date of such a transaction. Any gains or losses resulting from such transactions and from converting assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. Assets and liabilities denominated in the domestic currencies of foreign non-euro subsidiaries are converted into euro and any resulting exchange differences are recognised in other comprehensive income. Gains or losses that appear in other comprehensive income may affect shareholder's equity and CET 1 capital.

The NLB Group does not currently engage in any strategic currency exchange transactions for investment purposes. Some of the NLB Group's banking members operate their main business activities in euro, whereby they are exposed to foreign exchange lending risk if the domestic currency materially depreciates

against the euro, even though they include this risk evaluation within the process of a client's creditworthiness assessment.

Nonetheless, fluctuations in exchange rates between the euro and other currencies could impact the NLB Group's financial results in a number of ways. Future changes in the financial markets, namely foreign exchange fluctuations, may have a material effect on NLB's and the NLB Group's business and operations. No assurance can be given that they will not have an adverse effect on the results of operations of the NLB Group.

### **3.6 *The NLB Group faces interest rate, liquidity, foreign exchange, credit, market, investment and operational risks that could adversely affect if its risk management policies would not succeed***

As with any banking group, the NLB Group faces a number of business risks that could adversely affect it. These include interest rate, liquidity, foreign exchange, credit, market, investment and operational risk. Although NLB invests substantial effort in its risk management strategies, framework and systems, these strategies, framework and systems may nevertheless fail in certain circumstances, particularly when confronted with risks that NLB did not identify correctly or in a timely fashion. Furthermore, NLB may not be able to make a correct assessment or evaluation of the risks to which it is exposed.

Some of the measures taken by the NLB Group to manage various risks are to enter into hedging transactions to manage market risks, to set credit risk limits for each counterparty's investment (within a two-stage decision-making process) and, on an NLB Group portfolio level (to which the NLB Group is exposed in its lending business), to have sufficient collateral for credit provided and to do due diligence to manage legal risks. Some of these and other methods used by the NLB Group to manage, estimate and measure risk are based on historic market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical market developments may also not adequately allow a sufficiently accurate prediction of future circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the NLB Group. Such information may not always be correct, updated or correctly evaluated.

In addition, the risk methodologies and techniques used by the NLB Group may not cover adequately the entire spectrum of risks to which the NLB Group is subject. If any such risks materialise, the associated losses could be greater than NLB may have anticipated, which may have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

## **4. Risks relating to NLB Group operations**

### **4.1 *The NLB Group is exposed to risks related to potential future acquisitions or disposals of assets***

NLB may undertake mergers, acquisitions and disposals of assets and entities. The NLB Group evaluates potential acquisitions on an opportunistic basis, taking into consideration its objectives to strengthen its position in certain strategic markets and to maximise value for its shareholders, whilst minimising execution risks. Such transactions may entail significant risks related to the implementation of transactions, including risk of mispricing assets or entities, inadequate due diligence, risks related to contractual obligations entered into in such transactions and others.

There can be no assurance that the NLB Group will be successful in any acquisition process that it participates in or that it would be able to successfully integrate business operations of entities that it acquires in the future. In the context of an acquisition, the NLB Group would strive to achieve revenue and cost synergies, operating efficiencies, business growth opportunities, as well as other benefits from any acquisition. Integrating entities following an acquisition, however, may be complex and expensive and may present a number of challenges. In addition, expected business growth opportunities, revenue and cost synergies, operational efficiencies and other benefits may not materialise, in part because of the assumptions upon which the NLB Group determines to proceed with any acquisition may prove to be incorrect. It is NLB Group policy to complete due diligence in relation to any potential acquisition, but there can be no guarantee that such due diligence would be sufficient to uncover all material issues or that the quality of assets acquired would not have a negative impact on the NLB Group's capital position. As a result, if anticipated synergies or other benefits of an acquisition are not achieved, or if those achieved are

materially different from those that were expected, then this could have a material adverse effect on the NLB Group's business, financial condition, results of operations or prospects.

**4.2 *The NLB Group adopted a new strategy in September 2019, the implementation of which may be compromised by several factors***

In September 2019, the NLB Group approved key elements of a new, comprehensive five-year strategy. NLB's new strategy is focussed on: developing and providing the best customer solutions in the SEE market; establishing customer-based market management; improving its understanding of its clients; reimagining digital client journeys; and developing innovative solutions for its customers in order to improve their lifestyles, retaining existing customers and gaining new customers as a result.

Risks that may impact the achievement of strategic targets are, amongst others, as follows:

- The NLB Group's strategy is expected to require a certain level of stability of senior management and such stability of management cannot be fully assured.
- Future results of the NLB Group are based to a considerable extent on the favourable development of banking markets in Southeastern Europe. Political and security risks in any of these markets could impact the results of subsidiaries.
- The high complexity of the programme, the high level of interdependencies of strategic initiatives or the ability of IT to support the automation of certain processes and provide a specific platform to implement strategic initiatives cannot be fully assured.

The strategy may need to be amended from time to time as a result of developments in external conditions (economic growth, interest rates, foreign exchange rates) that would deviate from assumptions that underline current strategic projections. Such necessary adjustments of the strategy may negatively impact the NLB Group's results.

If one or more of the above-mentioned factors occur, the NLB Group face challenges implementing its strategy successfully and this may have a material adverse effect on the NLB Group's business, financial condition, results of operations, cash flows and prospects.

**4.3 *The NLB Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate***

The preparation of the NLB Group's financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS. All estimates and assumptions required in conformity with IFRS are the best estimates undertaken in accordance with applicable standards. Estimates and judgements are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the recognition of the expected losses for all financial instruments, not measured at fair value through profit and loss, including loan commitments and financial guarantees, recognition of deferred tax assets and the fair value of unquoted financial instruments and investments in subsidiaries, associates and joint ventures.

If the judgements, estimates and assumptions used by the NLB Group in preparing its consolidated financial statements are subsequently found to be incorrect there could be a significant loss to them beyond that anticipated or provided for or an adjustment to those consolidated financial statements, which could have a material adverse effect on the Group's business, financial condition and results of operations. (For further detail please refer to "*Description of the Issuer and the Group – Loan Portfolio – Impairment methodology*").

**4.4 *The NLB Group's IT systems may fail or their security may be compromised***

The NLB Group relies heavily on its IT systems for a variety of functions, including processing applications, providing information to customers and/or employees, and maintaining financial records. In addition, the NLB Group uses distribution channels based on an IT platform comprising online banking, mobile banking and call centres.

The IT systems used by the NLB Group may be vulnerable to physical and electronic breaches, computer viruses and other attacks by cyber criminals, internet fraudsters or by virtue of internal abuse which could lead to, amongst other things, a leakage of the NLB Group's customer data, damage related to incursions, destruction of documents, inability or delays in processing transactions and unauthorised transactions. Furthermore, software errors and similar problems could affect the NLB Group's ability to support and satisfy the needs of customers in a timely manner, interrupt the NLB Group's activities, breach its reputation, expose the NLB Group to increased regulatory audits or cause it to incur substantial technical, legal and other costs. The magnitude of interruptions to the NLB Group's IT systems may be large and may have significant effects regarding its ability to serve its customers' needs on a timely basis and could result in damage to the NLB Group's reputation, exposure to increased regulatory scrutiny and could require the NLB Group to incur significant expense. The occurrence of any IT systems failures or a security breach may adversely affect the business, financial condition, results of operations or development prospects of the NLB Group.

In 2019 the ECB conducted a comprehensive on-site inspection of IT in the NLB Group. It focused on areas including data quality management, IT continuity management, IT operations management, IT organisation and outsourcing, IT risk management, IT security management, organisational framework, strategy, policies, procedures and system architecture. The findings of the inspection were presented to the Bank in September 2019. The Issuer does not consider the findings to have a material impact on its business, and the Issuer continues to work to implement the recommendations of the ECB as quickly as possible. Some of the costs of implementing such recommendations have already been budgeted for, however, it is possible that further capital expenditure could be required in respect of such implementation.

#### **4.5 *The NLB Group is dependent on the strength of its reputation***

The NLB Group's market position relies in large part on its reputation and ability to provide a wide range of services to its customers.

In the event that the NLB Group's brand or reputation is damaged, for example as a result of litigation or other claims against one or more of the NLB Group members, administrative investigations or proceedings, negative press coverage or general negative perceptions about the NLB Group's services, this may have a negative effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

#### **4.6 *The NLB Group's insurance policies and own risk assessment premiums may not cover particular future losses***

While the NLB Group believes that the insurance policies presently held by the NLB Group to cover its assets and operations are in line with general market practice, and is actively following the development of and implementing insurance products pursuant to changes in the business and regulatory environment, there is no guarantee that the NLB Group's insurance adequately covers every possible future loss, or that the terms of currently implemented insurance will be sufficient to cover losses as they occur.

Any loss which is not covered by the NLB Group's existing insurance policies or own risk assessment premiums may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows, and even if covered, may result in increased insurance costs, rise of risk assessment premiums charged to the clients or difficulties in acquiring insurance in the future for the NLB Group.

#### **4.7 *NLB Group is subject to the risk of money laundering and financing terrorism in that third parties might use NLB Group as a conduit for illegal or terrorist activities, without the knowledge of the NLB Group, which could have a material adverse effect on the NLB Group***

The NLB Group is required to comply with applicable anti-money laundering and anti-terrorist financing ("AML" and "CFT") laws and regulations, restrictive measures and anti-bribery laws and regulations. The NLB Group has in place policies and procedures, including internal control and "know-your-customer" procedures, aimed at preventing the use of NLB or other NLB Group members for money laundering and terrorist financing. However, NLB or any of its subsidiaries may fail to sufficiently comply with these requirements, to ensure the adequate implementation of restrictive measures or to adequately implement an international sanctions screening system, which could have an adverse effect on NLB and the NLB Group. In addition, while NLB reviews its correspondent banks' internal policies and procedures with respect to

such matters, NLB to a large degree relies upon its correspondent banks to maintain and properly apply their own appropriate AML and CFT procedures, restrictive measures related to financial sanctions and embargoes.

NLB is subject to regular supervision by the ECB and the Bank of Slovenia, and under the AML and CFT law (*Zakon o preprečevanju pranja denarja in financiranja terorizma, ZPPDFT-1*), NLB can be subject to inspection procedures by the Office for Money Laundering Prevention and Securities Markets Agency. Despite the NLB Group's commitment to compliance with regulatory requirements, to constantly upgrading internal systems for AML and CFT, to quality controls and instructions and to conducting internal control mechanisms as adopted by the NLB Group, there is a risk that third parties could use the financial system of NLB or the other NLB Group members (or their respective correspondent banks) as a conduit for money laundering or terrorist financing (including illegal cash operations), or bribery or breaches of financial and economic sanctions without NLB's or another NLB Group member's (or their respective correspondent banks') knowledge. Failure to comply adequately with such regulations and standards could have a material adverse effect on the NLB or other NLB Group members or could trigger any other misdemeanour procedures for non-material violations. Following a recent NLB Group level audit, the Bank of Slovenia issued an order, requiring NLB to improve its AML and CFT policies so that they are more efficient. NLB was in the process of updating certain policies relating to AML and CFT when it received the order and shall continue with this process.

The Federal Banking Agency, as the banking regulator for Federation of Bosnia and Herzegovina, conducts routine AML review of NLB Banka Sarajevo. In the most recent preliminary report of the Federal Banking Agency, received on 21 October 2019, there are four findings of deficiencies in NLB Banka Sarajevo's AML processes. The Issuer does not consider the scope or nature of any of these findings to be material. Furthermore, NLB Banka Sarajevo intends to submit a response to rebut the findings of the draft report. A final report is expected from the Federal Banking Agency in due course and NLB Banka Sarajevo will determine and complete any required actions thereafter.

Southeastern Europe is considered to be a higher risk region by field experts in the banking industry and at regulatory institutions, as well as by AML, anti-bribery and CFT authorities such as the FATF and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, with respect to money laundering, bribery, terrorist financing and corruption, particularly in those countries outside the EU, including Bosnia and Herzegovina, Serbia, Montenegro, North Macedonia and Kosovo. Such region specific risks include:

- a significantly higher occurrence of cash transactions in comparison with other parts of Europe, which may result in difficulties establishing the source of funds;
- a large number of transactions to or from high-risk countries, especially those defined as "offshore" by the IMF;
- a significant number of investments and financial transactions involving or deriving from non-resident clients (especially from Russian residents as a result of long-standing ties in Southeastern European countries to Russia, where the source of funds is often poorly disclosed); and
- a low grade on the corruption perception index by Transparency International.

NLB must also comply with the U.S. Patriot Act as a foreign bank, especially in the area of correspondent banking relationships meeting the definition of high risk. Although special attention is paid to ensure that NLB does not enter into business relationships with shell banks (directly or indirectly) and offshore banks and not supporting correspondent accounts which are used directly by third parties to transact business on their own behalf (payable through account), such measures may not be sufficient to ensure compliance with the U.S. Patriot Act.

In 2017, NLB was subject to extensive media exposure related to AML and CFT as a result of a case involving transactions relating to Iran that took place in the years 2009 and 2010 (the "**Iran Case**"). This case was subject to a parliamentary investigation in 2017 and 2018, following which, a special Parliamentary Commission was established in order to investigate the alleged AML breach (Preiskovalna komisija o ugotavljanju domnevnega pranja denarja in financiranja terorizma, jedrske proliferacije ter financiranja aktivnosti tujih obveščevalno-varnostnih služb v NLB d.d. ter domnevnega pranja denarja v Novi KBM d.d.). It concluded its work in May 2018. Part of the final report of the Parliamentary

Commission has been published publicly, with portions of the report still restricted, including from NLB. Based on publicly available information, the Parliamentary Commission has not found any signs of criminal offences or breach of AML legislation in the case. It found that the former Management and Supervisory Boards of NLB had breached their duties. Furthermore, there were criminal charges filed against two former employees of NLB for false testimony during the hearing before the Parliamentary Commission, and former governmental representatives and the former representative of the Bank of Slovenia were found to have political responsibility in this case. As of the date of this Offering Circular, NLB is not aware of any proceedings regarding this case against NLB or its current employees with respect to the above investigation, or regarding the final findings of the authorities or the Parliamentary Commission mandated to investigate this case. According to Slovenian legislation any civil motion has been time barred in accordance with the general statute of limitations of five years. (*See – Description of the Issuer and the Group – Compliance*).

If NLB or any other Group member is associated with, or even accused of being associated with, money laundering or terrorist financing, then its and the NLB Group's reputation could suffer and it could become subject to criminal or regulatory fines, sanctions and/or legal enforcement (including being added to any "blacklists" that prohibit certain parties from engaging in transactions with NLB or other NLB Group members concerned), any one of which may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

#### **4.8 *The NLB Group is exposed to the risk of external or internal fraud***

NLB and the other NLB Group member companies are exposed to various risks resulting from fraudulent activities, particularly in connection with loan approval processes, procurement and client account processing. The NLB Group may be negatively affected by, inter alia, instances of stolen or misappropriated NLB Group or customer funds, manipulation of the NLB Group's objective evaluation processes (e.g. for the valuation of collateral, credit risk, etc.) and the breach or falsification of data and documentation and all types of deception.

For example, on 24 September 2018 NLB Montenegro received a formal indictment from the Special Prosecutor's Office of Montenegro in which, in addition to five other persons, a former member of the management board of NLB (the "**Management Board**") and NLB Montenegro (as a legal entity) were charged on suspicion of a criminal offence for the misuse of their position. (For more information see – "*Description of the Issuer and the Group - Legal and Administrative Proceedings - Other monetary claims involving substantial amounts*").

The NLB Group has undertaken measures to upgrade its internal control and compliance system, setting up measures to facilitate fraud risk management; however, these measures may not fully prevent future fraudulent activities, which could have negative adverse effects on NLB's finances, operations and reputation.

#### **4.9 *The NLB Group's continued success depends upon its ability to retain, recruit, train and motivate qualified staff***

NLB's continuing success depends, in part, upon its ability to retain, attract and motivate qualified and experienced banking and management personnel. NLB's failure to recruit and retain the necessary personnel or manage its personnel successfully may have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

### **5. Legal risks**

#### **5.1 *Unfavourable outcomes of pending litigation may adversely affect NLB and the Group***

NLB and members of the NLB Group are involved in a number of legal proceedings, some of which, if resolved adversely to the interests of NLB or the relevant member of the NLB Group, could have a material adverse effect on NLB and the Group. As at 30 September 2019, NLB was involved in 17 legal disputes with monetary claims against NLB exceeding EUR 1 million per case (excluding accrued interest). The aggregate amount of these claims, excluding accrued interest, was EUR 176.9 million. As at 30 September 2019, the NLB Group was involved in 31 legal disputes with monetary claims against NLB Group members exceeding EUR 1 million per case, excluding accrued interest, in the aggregate principal amount of EUR 340.5 million. Other than the Croatian litigation regarding transferred deposits and the litigation regarding

the Bail-In, each discussed below, such legal proceedings have arisen in connection with the ordinary course of business of NLB and the NLB Group.

NLB has established provisions in its financial statements for certain of these proceedings in which it is involved based on an assessment of the possible outcome of the proceedings. As at 30 September 2019, such provisions with respect to monetary claims exceeding EUR 1 million per case were EUR 1.8 million and EUR 4.5 million at the NLB and the NLB Group level, respectively. While management believes that NLB's financial statements make adequate provision for pending legal proceedings, a worse than expected outcome in any legal proceedings would mean that such provisions, or the absence of any provision, insufficiently cover NLB's liabilities and consequently could have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

**5.2 *A failure by NLB to comply with its obligations under ZVKNNLB and the related agreement with the Fund would deprive NLB of the protection granted to it by ZVKNNLB***

NLB is currently involved in proceedings whereby the plaintiffs claim that NLB is responsible for the liabilities relating to foreign currency deposits that were held with Ljubljanska banka, Zagreb Branch ("**Ljubljanska banka Zagreb Branch**"). Ljubljanska banka Zagreb Branch is the Croatian branch of Ljubljanska banka d.d., Ljubljana ("**Ljubljanska banka**"), which in turn is an entity from which NLB received certain assets and liabilities in 1994 (as discussed below).

Two Croatian banks have filed claims against Ljubljanska banka and NLB, as the alleged co-debtor, in Croatian courts in relation to deposits in various foreign currencies with Ljubljanska banka Zagreb Branch that were transferred to Privredna banka Zagreb and Zagrebačka banka by their original depositors in line with Croatian legislation set up after the dissolution of the Socialist Federal Republic of Yugoslavia (the "**SFRY**"). The proceedings were filed during the period from 1994 to 1996. The aggregate principal amount of the claims against NLB is as at 31 December 2018 equivalent to EUR 168.5 million (calculated at the exchange rates applicable on 31 December 2018), excluding any default interest. Due to the fact that the proceedings have been pending for a significant period of time, the default interest exceeds the principal amount of the transferred deposits. If NLB was found liable for these amounts, it would also be responsible for paying the litigation expenses of the plaintiffs.

Seven cases related to the transferred deposits have been litigated through to final judgment. The remaining matters are pending in various stages.

If NLB were to be found liable for the entire amount claimed, it would be obliged to pay significant amounts in principal, default interest and expenses. Pursuant to the Act on the Protection of the Value of Capital Investment of the Republic of Slovenia in NLB (*Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana*, hereinafter: the "**ZVKNNLB**"), the Succession Fund of the Republic of Slovenia (*Sklad Republike Slovenije za nasledstvo, javni sklad*, (the "**Fund**")) is obliged to compensate NLB for the sums recovered from NLB by enforcement of final judgments delivered by Croatian courts in relation to the transferred deposits. However, the obligation of the Fund is subject to the compliance by NLB with certain obligations which include the use of all reasonable legal remedies against unfavourable court decisions and NLB may be obliged to repay to the Fund all sums received from the Fund if it voluntarily makes any payment in satisfaction of any such judgment.

Accordingly, an unfavourable outcome in any of these pending proceedings may result in a negative financial impact to NLB and there is a risk that a failure by NLB to comply with its obligations under ZVKNNLB would deprive NLB of the protection granted to it by ZVKNNLB. (For more detail please see "*Description of the Issuer and the Group – Legal and Administrative Proceedings – Claims in relating to liabilities in respect of transferred deposits*").

**5.3 *If NLB would be found liable for claims relating to the Bail-In, it may incur substantial financial burdens***

In relation to the decision of the Slovenian government for the Republic of Slovenia to participate in capital increases of NLB in 2011 and 2012, the EC initiated a procedure to determine the compatibility of this participation with EU state aid rules. In accordance with the recommendations of the European Council published in June 2013, NLB (along with the majority of Slovenian banks) underwent an asset quality review (the "**AQR**") and "bottom-up" stress tests. In December 2013, the results of the AQR and stress test exercise revealed a capital shortfall for NLB of EUR 1,904 million. As a result, several measures aimed at

ensuring the capital adequacy of NLB and the NLB Group were taken, including, amongst other measures, termination of all of NLB's obligations in respect of its share capital and subordinated financial instruments ("**Qualified Liabilities**") by way of a bail-in ("**Bail-In**"). For further information, see "*Description of the Issuer and the Group - EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*".

Pursuant to the Slovenian Banking Act (*Zakon o bančništvu (ZBan-1)*) ("**ZBan-1**"), which was applicable in 2013, the only remedy available to persons who, as a result of the Bail-In, lost their investments in the Qualified Liabilities (the "**Affected Investors**"), is to claim compensation from the Bank of Slovenia. The Constitutional Court of the Republic of Slovenia (the "**Constitutional Court**") conducted the constitutional review of the provisions of ZBan-1 that provided the grounds for the Bank of Slovenia's Decision on extraordinary measures number 24.20-021/13-010 of 17 December 2013 (the "**Bank of Slovenia Decision**"). For further information on the Bank of Slovenia Decision, see "*Description of the Issuer and the Group - EC Decision on State Aid, Final EC Decision and Bank of Slovenia Decision on Extraordinary Measures Relating to Capital Adequacy*". On 19 October 2016, the Constitutional Court deemed the provisions of ZBan-1 that govern the Bail-In were constitutional, including the provision which did not allow Affected Investors to claim damages or use any contractual remedy against NLB. However, the Constitutional Court further determined that the provisions relating to the claims against the Bank of Slovenia failed to provide an effective remedy to Affected Investors and were therefore unconstitutional. The Constitutional Court ordered the National Assembly to amend the legislation before 19 April 2017 in order to, amongst other things, address concerns regarding a disparity in the access to information and evidence between the Bank of Slovenia and Affected Investors and ruled that all court proceedings in which the Affected Investors claim compensation from the Bank of Slovenia shall be suspended until the said unconstitutionality is removed. The legislative proposal for an act intended to address such unconstitutionality (*Zakon postopku sodnega in izvensodnega varstva nekdanjih imetnikov kvalificiranih obveznosti bank ("ZPSVIKOB")*) has been passed by the National Assembly on 22 October 2019 but was later vetoed by the State Council ("**Državni svet**"). If the repeated vote by the National Assembly does not succeed, the process of passing the necessary legislation may be further protracted.

Nevertheless, in December 2016, certain Affected Investors publicly announced that they had initiated proceedings against NLB in which they are claiming compensation for the losses they incurred as a result of the Bail-In. The claims made by the plaintiffs are based on various allegations, including misrepresentations made by NLB in the context of its public offering of the subordinated notes, a failure to disclose the conflict of interest and a failure to contest the Bank of Slovenia Decision, amongst others. Some plaintiffs have not specified the grounds for their claim. As of the date of this Offering Circular, all these proceedings except for one are suspended until the preliminary issue of whether or not any compensation will be payable to the Affected Investors by the Bank of Slovenia is resolved. (See "*Description of the Issuer and the Group—Legal and Administrative Proceedings—Proceedings relating to the Bank of Slovenia Decision*").

These claims, if determined in favour of the plaintiffs, may result in a substantial financial burden to NLB. As of 30 September 2019, the aggregate amount of these claims received by NLB was EUR 3.6 million. As certain Affected Investors publicly announced claims exceeding such amount and since there is a possibility that NLB has not yet been notified of all the legal proceedings initiated against it in December 2016, this amount may increase in the course of time and such additional claims may be material.

No provision for any of these claims has been recorded and any losses recorded as a result of such claims may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows.

## 6. **Regulatory risks**

### 6.1 ***The Issuer is subject to a number of strict and extensive regulatory rules and requirements, including capital requirements.***

The NLB Group is subject to a wide variety of laws and regulations relating to banking, insurance and financial services, including those governing its marketing and selling practices, and faces the risk of significant interventions by a number of regulatory and enforcement authorities in each of the jurisdictions in which it operates.

NLB is subject to capital adequacy and liquidity rules imposed by the EU (including the Capital Requirements Directive, Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC as amended, replaced or supplemented from time to time (including as amended by Directive 2019/878 of the European Parliament and the Council of May 20, 2019) ("**CRD V**") as implemented in the Republic of Slovenia and the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, on the prudential requirements for credit institutions and investment firms, as amended, replaced or supplemented from time to time (including as amended by Regulation 876/2019 of the European Parliament and the Council of May 20, 2019) ("**CRR**" and, together with CRD V, the "**CRD V Package**") which govern the activities in which banks may engage and are designed to maintain the safety and soundness of banks, and limit their exposure to risk. (See – "*Description of the Issuer and the Group – Capital Adequacy*").

Additionally, the NLB Group is subject to stress tests, including regular stress testing exercises by the ECB, and other regulatory enquiries. Any negative outcomes could lead to a loss of trust in the NLB Group and materially and adversely affect the NLB Group's reputation and financing costs in addition to potentially triggering an enforcement action by relevant supervisory authorities. The NLB Group is included in the ECB stress testing exercises each year. In 2016, 2017, 2018 and 2019 the NLB Group concluded the ECB's stress testing exercise in accordance with its requirements and the results were included in the SREP decision for the NLB Group (except for 2019 as the final SREP decision has not been obtained yet).

Any failure to comply with applicable laws, regulations and requirements may result in the NLB Group being exposed to many forms of risk which could have an adverse effect on its business, and which may arise in a number of ways, including financial and reputational losses, measures such as blacklisting by financial institutions, the termination of business partnerships and legal proceedings and penalisation by the relevant authorities. It could lead to legal or administrative sanctions, which may also affect the NLB Group's long-term ability to conduct its business and in turn its financial condition and results of operations.

## 6.2 *The Issuer is obliged to contribute to the Single Resolution Fund and to the deposit guarantee fund.*

The Single Resolution Fund ("**SRF**") has been established within the SRM and is composed of contributions by credit institutions and certain investment firms in the participating EU Member States of the Banking Union. The SRF shall be gradually built up during an initial period of eight years (2016 – 2023) and shall reach the target level of at least 1% of the amount of covered deposits of all credit institutions within the Banking Union by 31 December 2023.

Furthermore, the Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (*Directive on Deposit Guarantee Schemes – "DGSD"*) stipulates a target level of the *ex ante* financed funds for the deposit guarantee schemes of 0.8% of covered deposits. According to the Slovenian Deposit Guarantee Scheme Act (*Zakon o sistemu jamstva za vloge (ZSJV)*), which implements the DGSD in Slovenia, the deposit guarantee fund is to be fully funded by 3 July 2024. If necessary, credit institutions would have to pay certain additional (*ex post*) contributions in cases where the deposit guarantee fund does not have sufficient funds at its disposal to repay deposits covered by the guarantee.

The Slovenian Bank Resolution Authority and Fund Act (*Zakon o organu in skladu za reševanje bank*) established the Slovenian Bank Resolution Fund ("**BRF**"), to which Slovenian banks have to contribute. The BRF is operated and managed by BSI and its purpose is to finance the compulsory winding-up measures that can be imposed by the BSI. Among other things, the funds of the BRF may be used for: (i) payment of the subscribed capital of the company established for the holding of the separate assets; (ii) payment of compensation to a bank in compulsory winding-up in cases where the BRF takes over its assets, rights and liabilities; and (iii) loans, guarantees, sureties or other collateral granted with respect to measures of compulsory winding-up. The assets of the BRF may not be used to cover past losses of a bank in compulsory winding-up. The target level of the assets in the BRF is 2.3% of all the guaranteed deposits at the banks in Slovenia. The BRF will cease its operations as of 31 December 2024, following which the contributions of the banks will be returned proportionally to their payments.

The Issuer's obligation to make contributions to the SRF, the BRF and the deposit guarantee fund may have a negative impact on the Issuer's business operations as well as its assets, financial position and results of operation.

6.3 ***If the relevant conditions are met, the resolution authority shall apply resolution actions in relation to the Issuer.***

The Resolution and Compulsory Dissolution of Credit Institutions Act (*Zakon o reševanju in prisilnem prenehanju bank*) (the "**ZRPPB**") implemented in the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 (establishing a framework for the recovery and resolution of credit institutions and investment firms), as amended, including by Directive 2019/879 of the European Parliament and of the Council of 20 May 2019 (the "**BRRD**") in the Republic of Slovenia which sets out the necessary steps and powers to ensure that bank failures across the EU are managed in a way which mitigates the risk of financial instability and minimises costs for taxpayers. The BRRD is designed to provide authorities with a harmonised set of tools and powers to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. In this context, the term resolution means the application of such tools in order to achieve one or more of the resolution objectives referred to the BRRD. The ZRPPB and Regulation 806/2014 of the European Parliament and of the Council of 15 July 2014 (establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms), as amended including by Regulation 2019/877 of the European Parliament and of the Council of 20 May 2019 (the "**SRM Regulation**") give the recovery and resolution authority responsible for planning and implementing the resolution of an institution (being, in the case of the Issuer, the Single Resolution Board established in accordance with Article 42 of the SRM Regulation) (the "**Relevant Resolution Authority**") certain powers which may be exercised in relation to an institution under resolution, including (but are not limited to) the power to cancel or convert all or a portion of the principal amount of, and/or interest on, capital instruments, which include the Notes (See – "*Risk Factors - Risks resulting from the Notes representing regulatory capital of the Issuer - In the event of the Issuer's resolution, the Notes could be subject to write-down and conversion powers*").

Generally, if the conditions for resolution are met, the resolution authority shall take resolution actions (i.e. resolution tools and resolution powers) in relation to an institution in order to be able to exercise an orderly resolution and to preserve the financial stability. When applying resolution tools and exercising resolution powers, the resolution authority shall take into account the resolution objectives (*inter alia*, to ensure the continuity of critical functions, to avoid a significant adverse effect on the financial stability and to protect public funds and covered deposits of customers).

The resolution tools are:

- the sale of business tool;
- the bridge institution tool;
- the asset separation tool; and
- the bail-in tool.

By applying the bail-in tool the resolution authority may write down eligible liabilities in a cascading contribution to loss absorption of an institution or convert them into instruments of ownership. Moreover, the resolution authority can separate the performing assets from the impaired or under-performing assets in order to ensure the continuity of services and avoid adverse effects on financial stability. For this purpose, the resolution authority can transfer the shares in an institution or all or part of the assets of an institution to a private purchaser or a bridge institution without the consent of the shareholders.

In addition, the resolution authority has resolution powers, which it may exercise individually or in any combination in relation to or for the preparation of the application of a resolution tool. These resolution powers include in particular:

- the power to transfer to another entity rights, assets and liabilities of an institution under resolution;

- the power to reduce, including to reduce to zero, the principal amount of or outstanding amount due in respect of eligible liabilities of an institution under resolution;
- the power to convert eligible liabilities of an institution under resolution into ordinary shares or other instruments of ownership of an institution under resolution, a relevant parent institution or a bridge institution to which assets, rights or liabilities of the Issuer are transferred;
- the power to cancel debt instruments issued by an institution under resolution;
- the power to require an institution under resolution or a relevant parent institution to issue new shares, other instruments of ownership or other capital instruments, including preference shares and other contingent convertible instruments; and/or
- the power to amend or alter the maturity of debt instruments and other eligible liabilities issued by an institution under resolution or amend the amount of interest payable under such instruments and other eligible liabilities, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

The application of resolution actions in relation to the Issuer may have a material negative impact on the Issuer's business operations as well as its assets, financial position and results of operation. In addition, bankruptcy proceedings over the Issuer's assets or special receivership proceedings regarding the Issuer may be opened.

6.4 ***Changes in the regulatory framework within which the NLB Group operates could have a material adverse effect on NLB and/or the NLB Group.***

NLB and the NLB Group are exposed to risks relating to changes in the regulatory framework within which it operates, including:

- changes in the monetary, interest rate, capital adequacy and other policies of central banks and regulatory authorities;
- changes in laws and regulations or changes in regulatory regimes that could significantly influence investor decision-making in the markets within which the NLB Group operates or increase the costs of operating in those markets;
- changes to the regulatory requirements that the NLB Group must meet, such as prudential rules relating to capital adequacy creating more onerous obligations than expected, the compliance with which may increase the NLB Group's capital requirements, expose it to additional costs and liabilities, and require it to change how it conducts its business, including the reduction of risk and leverage of certain activities, or otherwise have an adverse impact on its business, the products and services it offers and the value of its assets;
- changes in laws and regulations that may influence the way in which the NLB Group provides banking, payment, investment and other services which increase the cost and/or risks associated with providing such services;
- restrictions on business growth or pricing and additional requirements to operate in a way that prioritises objectives other than shareholder value creation;
- changes to financial reporting standards;
- changes in competition and pricing environments, such as the harmonisation of card payment interchange fees;
- differentiation amongst financial institutions by governments with respect to the extension of guarantees to bank customer deposits and the terms attaching to such guarantees, including requirements for certain members of the NLB Group to accept exposure to the risk of the failure of any third-party participants in such guarantee schemes;
- the design and implementation of government-mandated resolution or insolvency regimes;

- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes;
- regulations relating to, and enforcement of, data protection, anti-bribery, anti-money laundering, anti-terrorist financing or other similar regimes;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty that, in turn, may affect demand for the NLB Group's products and services.

The financial services industry continues to be the focus of significant regulatory change and scrutiny which may adversely affect the Group's business, financial performance, capital and risk management strategies. For example, on 23 November 2016, the European Commission presented a comprehensive package of reforms to existing EU legislation to strengthen the resilience of EU banks (the "**EU Banking Package**"). The EU Banking Package entered into force on 27 June 2019 however, some of the amendments of the CRR shall apply from 28 June 2021 and those of the SRM Regulation from 28 December 2020. EU Member States are to implement the amendments of the BRRD and the CRD IV into national legislation by 28 December 2020.

On 7 December 2017, the oversight body of the BCBS, the Group of Central Bank Governors and Heads of Supervision, endorsed the outstanding Basel III reforms proposed by the BCBS. These are intended to enhance risk sensitivity and robustness of standardised approaches, clarify the role of internal models in the capital framework and to implement changes to the design and calibration of the leverage ratio and capital floors. As such, the final Basel III reforms package includes changes to the standardised approach to operational risk and new capital floor requirements. The majority of these reforms are required to be implemented by January 2022 and the output floor has a 5 year transitional period to 2027.

The NLB Group prepares long-term capital plan projections, monitors regulatory and internal capital usage on a quarterly basis and prepares projections where changes to capital adequacy requirements or other ECB/EBA guidelines are anticipated. Nevertheless, changes to capital requirements or other conditions, if implemented, could force the NLB Group to acquire additional capital, which may be unavailable in the future or unavailable at an attractive rate or within the time frame necessary in order to ensure compliance with such requirements. (See – "*Risk Factors - NLB may be required to increase its capital in the future for a range of different reasons, including as a result of changing regulatory requirements, and may experience material difficulty in raising any such additional capital and other Group banks are subject to capital requirements in their own jurisdictions of operation and any failure by one or more of these banks to maintain appropriate levels of capital could have a material adverse effect on the NLB Group*").

Changes to the regulatory framework within which that the NLB Group operates may have a material effect on NLB's and the NLB Group's business and operations. No assurance can be given that laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the NLB Group.

#### 6.5 *The NLB Group is exposed to risks related to tax regulations*

The NLB Group is subject to financial reporting regulations and tax liabilities in all of the jurisdictions in which it operates. The NLB Group's activities are principally conducted in the Republic of Slovenia and it is therefore subject to a range of Slovenian taxes at various rates. Future actions by the Slovenian government to increase tax rates or to impose additional taxes could reduce the NLB Group's profitability. Revisions to tax legislation or to its interpretation might also affect the NLB Group's financial condition in the future. In addition, the NLB Group is subject to tax audits which could result in additional tax assessments, which may be material, relating to transactions executed up to five years prior. Any such assessments could be material and might also affect the NLB Group's financial condition in the future.

Negative dispositions from tax authorities or unanticipated changes to financial reporting regulations and tax liabilities in any of the jurisdictions in which it operates could have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flow.

## 6.6 **Risks relating to regulatory changes in relation to payment services**

The Payment Services, Services of Issuing Electronic Money and Payment Systems Act (*Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih*) (the "**Payments Act**") transposing European wide PSD2 requirements came into force on 22 February 2018. Regulatory Technical Standards on strong customer authentication and secure communication under PSD2 were published in the EU Official Journal on 13 March 2018 and apply in full from 14 September 2019. Compliance with the Payments Act and the Regulatory Technical Standards required major changes of the Group's IT systems. Following changes such as these, there is an increased risk of a failure or malfunction of the IT systems.

Among other things, the new rules include a requirement to grant certain regulated third parties access to customer accounts and information, which increases the risk that the Group could be subject to cyberattacks.

In addition, an on-site solution audit by a regulator could result in additional regulatory requirements relating to payment services.

### **RISKS ARISING FROM THE NOTES**

#### **1. Risks associated with the characteristics of the Notes**

##### **1.1 *Noteholders are subject to risks resulting from the subordination of the Notes.***

The Notes constitute direct, unsecured and subordinated obligations of the Issuer. In the event of normal insolvency proceedings (bankruptcy proceedings (*stečaj*)) or compulsory liquidation (*prisilna likvidacija*) of the Issuer, the claims on the principal amount of the Notes and any unpaid interest will rank: (a) junior to all present or future claims from: (i) unsecured and unsubordinated instruments or obligations of the Issuer; and (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR; (b) *pari passu*: (i) among themselves; and (ii) with all other present or future claims from Tier 2 Instruments of the Issuer; and (c) senior to all present or future claims from: (i) Additional Tier 1 instruments of the Issuer pursuant to Article 52 of the CRR; (ii) ordinary shares of the Issuer and any other common equity tier 1 ("**CET1**") instruments of the Issuer pursuant to Article 28 of the CRR; and (iii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank junior to the obligations of the Issuer under the Notes.

Noteholders must be aware that, in the circumstances described above, (a) the Issuer will make payments in respect of the Notes only in accordance with the subordination described above, and (b) the rights of the Noteholders under the Notes will be subject to the provisions of the ZRPPB (as defined below) (as the Issuer may be subject to resolution tools and powers stipulated therein (see - "*Risk Factors - In the event if the Issuer's resolution, the Notes could be subject to write-down and conversion powers*") and subsequently, the rights of the Noteholders under the Notes may be subject to the provisions of other (national) insolvency laws applicable to the Issuer from time to time. In a liquidation, dissolution, bankruptcy, composition, resolution or other proceeding for the avoidance of bankruptcy of, or against, the Issuer, it is very likely that the Noteholders may recover proportionately less than the holders of unsubordinated obligations of the Issuer or may recover nothing at all.

##### **1.2 *There is the risk that an investor in the Notes will lose all or some of its investment should the Issuer become bankrupt.***

Any person who purchases the Notes is relying on the creditworthiness of the Issuer and has no rights against any other person and investors are subject to the risk of a partial or total failure of the Issuer to make interest and/or redemption payments that the Issuer is obliged to make under the Notes. The Issuer's ability to meet its obligations arising from the Notes and the ability of the holders of the Notes to receive payments arising from the Notes depend on the financial position and the results of operations of the Issuer, which are subject to other risks described in this Offering Circular. A materialisation of the credit risk (for example, due to the materialisation of any of the risks described above under "*Risk Factors - Risk relating to the Issuer and the Group*") may result in partial or total failure of the Issuer to make interest and/or redemption payments under the Notes.

This risk is aggravated by the fact that the Notes are unsecured and subordinated (see - "*Risk Factors - The Noteholders are subject to risks resulting from the subordination of the Notes*") and the Notes are not in any way covered by a guarantee of the Issuer, its associated persons or based on any other form of contract

which, in the legal or economic view, would improve the level of priority of payments before other creditors or claims of other creditors of the Issuer. Furthermore, the Notes are not considered either guaranteed deposits which are part of the system of guaranteed deposits in the Republic of Slovenia, or a part of the guarantee scheme of the Republic of Slovenia. As a result of the above, there is a risk that the Noteholders could lose part or all of their investments in the Notes.

**1.3 *The Noteholders have no ownership or voting rights***

An investment into the Notes is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Issuer or any of the subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments. Noteholders therefore cannot influence any decisions by the Issuer concerning the capital structure or any other matters relating to the Issuer. The Notes represent an unsecured debt obligation of the Issuer, granting the Noteholders only such rights as set forth in the Terms and Conditions. The value of the Notes might be affected by the actions of the shareholder of the Issuer over which the investors do not have control.

**1.4 *The Notes do not include express events of default or a cross default.***

The Noteholders should be aware that the Terms and Conditions of the Notes do not contain any express event of default provisions. There will also not be any cross default under the Notes.

**1.5 *Noteholders do not have the option to demand the early redemption of the Notes***

Noteholders do not have the right to demand early redemption of the Notes and should not invest in the Notes in the expectation that the Issuer would exercise its option to redeem the Notes. Should such an option arise further to the Terms and Conditions (see – "*Risk Factors - In the event that the Notes are redeemed prior to their maturity, Noteholders may be exposed to certain risks, including the risk that their investment will have a lower than expected yield*" below). of the Notes any decision by the Issuer as to whether it will exercise any option to redeem the Notes will be taken at the absolute discretion of the Issuer.

**1.6 *The Notes may be redeemed at the option of the Issuer if the Issuer does not obtain the permission of the Competent Authority to include the Notes in whole in the calculation of its Tier 2 capital***

If the Issuer does not obtain the permission of the Competent Authority to include the Notes in whole in the calculation of its Tier 2 capital pursuant to the CRR pursuant to Article 129(2) of the Slovenian Banking Act (*Zakon o bančništvu – "ZBan-2"*), the Issuer may, in accordance with the Terms and Conditions, redeem the Notes at the principal amount of the Notes, together with accrued and unpaid interest, any time prior to the maturity date. As a result, Noteholders are exposed to the risk that their investment will have a lower than expected yield (see – "*Risk Factors - In the event that the Notes are redeemed prior to their maturity, Noteholders may be exposed to certain risks, including the risk that their investment will have a lower than expected yield*" below).

**1.7 *In the event that the Notes are redeemed prior to their maturity, Noteholders may be exposed to certain risks, including the risk that their investment will have a lower than expected yield.***

If (i) the Issuer does not obtain the permission of the Competent Authority pursuant to Article 129(2) of ZBan-2 to include the Notes in whole in the calculation of its Tier 2 capital pursuant to the CRR, (ii) there is a change in the regulatory classification of the Notes that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds or (iii) there is a change in the applicable tax treatment of the Notes, and provided that in each case the conditions to early redemption and repurchase laid down in the Terms and Conditions are met, there is a risk that the Notes may be redeemed at the option of the Issuer, and at the principal amount of the Notes, together with accrued and unpaid interest, prior to the maturity date. In addition, the Issuer may redeem the Notes early in whole on the fifth anniversary of the date of issuance of the Notes at their principal amount together with accrued and unpaid interest thereon to but excluding the date specified for the redemption on the fifth anniversary of the date of issuance of the Notes.

If the Notes are redeemed at the option of the Issuer, a Noteholder is exposed to the risk that due to the early redemption the Noteholder's investment will have a lower than expected yield and to the risks connected with any reinvestment of the cash proceeds received as a result of the early redemption. Such

cash proceeds may be lower than the then prevailing market price of the Notes immediately prior to the publication of a notice of redemption.

- 1.8 ***The Notes are subject to the fixed rate interest rate applicable until the Reset Date and thus, Noteholders are exposed to the risk that the market price of the Notes falls as a result of changes in the market yield.***

The Notes bear interest at a fixed rate from and including the Interest Commencement Date to but excluding the Reset Date.

During that time, Noteholders are exposed to the risk that the market price of such Notes may fall because of changes in the market yield. While the nominal interest rate (i.e. the coupon) of the Notes is fixed until, but excluding, the Reset Date, the market yield typically changes on a daily basis. As the market yield changes, the market price of the Notes typically changes in the opposite direction. If the market yield increases, the market price of the Notes typically falls. If the market yield falls, the market price of the Notes typically increases. Noteholders should be aware that movements of the market yield can adversely affect the market price of the Notes and can lead to losses for the Noteholders.

Noteholders should also be aware that the market yield has two components, namely the risk-free rate and the credit spread. The credit spread is reflective of the yield that investors require in addition to the yield on a risk-free investment of equal tenor as a compensation for the risks inherent in the Notes. The credit spread changes over time and can decrease as well as increase for a large number of different reasons. The market yield of the Notes can change due to changes of the credit spread, the risk-free rate, or both.

- 1.9 ***The Notes are subject to certain risks related to the reset of the interest rate linked to the 5-year mid swap rate.***

From and including the Reset Date to but excluding the maturity date, the Notes bear interest at a rate which will be determined two days prior to the Reset Date at the 5-year mid swap rate for the relevant period plus a margin.

Investors should be aware that the performance of the 5-year mid swap rate and the interest income on the Notes cannot be anticipated and neither the current nor the historical level of the 5-year mid swap rate is an indication of the future development of the 5-year mid swap rate. Due to varying interest income, investors are not able to determine a definite yield to maturity of the Notes at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. In addition, after interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Furthermore, during the reset period, it cannot be ruled out that the market price of the Notes may fall as a result of changes in the current interest rate on the capital market (market interest rate), as the market interest rate fluctuates. During that period, the investor is exposed to the same risk as described in the above risk factor (see - "*Risk Factor - The Notes are subject to the fixed rate interest rate applicable until the Reset Date and thus, Noteholders are exposed to the risk that the market price of the Notes falls as a result of changes in the market yield.*").

- 1.10 ***Following the regulation and reform of "benchmarks", including the Euro Interbank Offered Rate (EURIBOR), benchmarks may perform differently than in the past or disappear entirely, or there could be other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the Notes.***

Following the Reset Date, interest amounts payable under the Notes are calculated by reference to the annual swap rate for swap transactions denominated in Euro with a term of 5 years, which appears on the Reuters Screen Page ICESWAP2.

This swap-rate, the Euro Interbank Offered Rate (EURIBOR) underlying the floating leg of this swap rate and other interest rates or other types of rates and indices which are deemed "benchmarks" (each a "**Benchmark**" and together, the "**Benchmarks**") have become the subject of regulatory scrutiny and recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such Benchmarks to perform

differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the Notes.

International proposals for reform of Benchmarks include the Benchmark Regulation which is fully applicable since 1 January 2018. The Benchmark Regulation could have a material impact on the Notes, including in any of the following circumstances:

- a rate or index which is a Benchmark may only be used if its administrator obtains authorisation or is registered and in case of an administrator which is based in a non-EU jurisdiction, if the administrator's legal benchmark system is considered equivalent (Article 30 Benchmark Regulation), the administrator is recognised (Article 32 Benchmark Regulation) or the relevant Benchmark is endorsed (Article 33 Benchmark Regulation) (subject to applicable transitional provisions). If this is not the case, Notes linked to such Benchmarks could be impacted; and
- the methodology or other terms of the Benchmark could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level, and could have an impact on the Notes, including determination of the rate by the Issuer, the Calculation Agent or an independent adviser, as the case may be.

In addition to the aforementioned Benchmark Regulation, there are numerous other proposals, initiatives and investigations which may impact Benchmarks.

Following the implementation of any such potential reforms, the manner of administration of Benchmarks may change, with the result that they may perform differently than in the past, or Benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted.

Any changes to a Benchmark as a result of the Benchmark Regulation or other initiatives, could have a material adverse effect on the costs of administering or otherwise participating in the setting of a Benchmark and complying with any such regulations or requirements. Investors should be aware that any changes to a relevant Benchmark may have a material adverse effect on the market price of the Notes.

Under the Terms and Conditions, certain benchmark replacement provisions will apply if a Benchmark (or any component part thereof) used as a reference for the calculation of interest amounts payable under the Notes were to be discontinued or otherwise became unavailable:

If a Benchmark (or any component part thereof) used to calculate interest amounts payable under the Notes for any interest period has ceased to be calculated or administered, the Issuer shall endeavour to appoint an independent adviser, which must be an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets. Such independent adviser will be tasked with determining whether an officially recognised successor rate to the discontinued Benchmark exists. If that is not the case, the independent adviser will attempt to find an alternative rate which, possibly after application of adjustments or spreads, can replace the discontinued Benchmark. If the independent adviser determines a successor rate or alternative rate (the "**Alternative Benchmark Rate**"), such rate will replace the previous Benchmark for purposes of determining the relevant rate of interest. Such determination will be binding for the Issuer, the Calculation Agent, the Paying Agents and the Noteholders. Any amendments pursuant to these fallback provisions will apply with effect from the respective effective date specified in the Terms and Conditions.

If the Issuer fails to appoint an independent adviser or if the adviser fails to determine an Alternative Benchmark Rate following a discontinuation of a relevant Benchmark, the reference rate applicable to the immediately following reset period shall be equal to the Reset Rate of Interest last determined in relation to the Notes (which may be the First Rate of Interest minus the Margin)

The replacement of a Benchmark could have adverse effects on the economic return of the Noteholders compared to the applicable original benchmark rate.

1.11 ***The Terms and Conditions may be amended by resolution of the Noteholders in which a Noteholder may be subject to the risk of being outvoted by a majority resolution of the Noteholders.***

Because the Terms and Conditions provide for meetings of Noteholders or the taking of votes without a meeting, the Terms and Conditions may be amended by majority resolution of the Noteholders and a Noteholder is subject to the risk of being outvoted by a majority resolution of the Noteholders. The rules pertaining to resolutions of Noteholder are set out in the German Act on Issues of Debt Securities (*Gesetz über Schuldverschreibungen aus Gesamtemissionen* - "SchVG") and are largely mandatory. Pursuant to the SchVG the relevant majority for Noteholders' resolutions is generally based on votes cast, rather than on the aggregate principal amount of the Notes outstanding, therefore, any such resolution may effectively be passed with the consent of less than a majority of the aggregate principal amount of the Notes outstanding. As such a majority resolution is binding on all Noteholders and certain rights of a Noteholder against the Issuer under the Terms and Conditions may be amended or reduced or even cancelled, which could have significant negative effects on the market price of the Notes and the return from the Notes.

Because the Terms and Conditions provide that Noteholders are entitled to appoint a Holders' Representative by a majority resolution of the Noteholders, it is possible that a Noteholder may be deprived of its individual right to pursue and enforce its rights under the Terms and Conditions against the Issuer, such right passing to the Holders' Representative, who is then exclusively responsible to claim and enforce the rights of all the Noteholders.

1.12 ***The Issuer is not prohibited from issuing further debt, which may rank pari passu with or senior to the Notes***

There is no restriction on the amount of debt that the Issuer may issue that ranks senior to the Notes or on the amount of securities that it may issue that rank *pari passu* with the Notes. The issue of any such debt or securities may reduce the amount recoverable by Noteholders in the event of voluntary or involuntary liquidation or bankruptcy of the Issuer.

1.13 ***The Noteholders are not entitled to exercise set-off***

Noteholders shall not be entitled to exercise any right of set-off or counterclaim against moneys owed by the Issuer in respect of the Notes. Therefore, Noteholders will not be entitled (subject to applicable law) to set off the Issuer's obligations under the Notes against obligations owed by them to the Issuer.

1.14 ***Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, holders of the Notes will have to rely on their procedures for transfer, payment and communication with the Issuer.***

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

1.15 ***The risk associated with withholding tax***

According to the Slovenian rules applicable to taxation of interest, the payment of interest under the Notes shall not be subject to withholding tax imposed by the Republic of Slovenia if the Notes are traded on the regulated market or in a multilateral trading facility in an EU Member State or a member of the Organisation for Economic Co-operation and Development. If, for any reason, the Notes are not admitted to trading on such market or trading facility, the person who is considered a Slovenian payer of interest under the Notes pursuant to the Slovenian tax regulations may be obliged to deduct from each payment of interest tax at the

rate of 25 per cent which is expected to be increased to 27.5 per cent. in 2020 when the first interest under the Notes will become payable. In particular, this would be the case if such withholding or deduction would have been required to be made pursuant to the laws applicable on the issue date of the Notes. Pursuant to Condition 7 (*Taxation*), in such a situation the Issuer would be required to increase the relevant interest payments by additional amounts which would result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding been required, however the Issuer's obligation to do so is subject to a number of exceptions set out in Condition 7 (*Taxation*).

## **2. Risks resulting from the Notes representing regulatory capital of the Issuer**

### **2.1 *In the event of the Issuer's resolution, the Notes could be subject to write-down and conversion powers***

As mentioned above, amongst other powers, the SRM Regulation gives the Relevant Resolution Authority the power to cancel or convert all or a portion of the principal amount of, and/or interest on, capital instruments, which include the Notes (see "*Risk Factors - Regulatory risks - If the relevant conditions are met, the resolution authority shall apply resolution actions in relation to the Issuer*".)

Should the Relevant Resolution Authority take a resolution action in relation to the Issuer, the Noteholders may therefore be subject to write-down or conversion into equity on application of such powers (without requiring the consent of such Noteholders), which may result in such Noteholders losing some or all of their investment or receiving other securities to replace the Notes which are worth less than the Notes.

The exercise of such mandatory write-down and conversion powers could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and, accordingly, the application, announcement or expectations of any resolution measures being applied to the Issuer would negatively impact the rights of the Noteholders, the value of the Notes and the performance of the Issuer's obligations in respect of the Notes.

### **2.2 *In the event of the Issuer's resolution, payments under the Notes would be subject to the approval of the Relevant Resolution Authority***

The ZRPPB provides that an institution under resolution shall not be permitted to make any payments of principal or interest under its capital instruments (which include the Notes), regardless of their maturity, unless prior approval of the Relevant Resolution Authority has been obtained.

Therefore, should the Relevant Resolution Authority take a resolution action in relation to the Issuer, it is likely that the Noteholders will not receive payments of principal or interest payable under the Notes when due. Accordingly, the application, announcement or expectations of resolution measures being applied to the Issuer would negatively impact the rights of the Noteholders, the value of the Notes and the performance of the Issuer's obligations in respect of the Notes.

### **2.3 *In the event of the Issuer's resolution, the admission of the Notes to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange may be suspended or discontinued.***

The ZRPPB provides that the Relevant Resolution Authority shall have the power to discontinue or suspend the admission to trading on a market or the official listing of financial instruments issued by an institution under resolution without the consent of the holders of such financial instruments.

The exercise of such powers in relation to the Notes or even the announcement or expectations of resolution measures being applied to the Issuer would negatively impact the liquidity and the value of the Notes.

## **3. Market Risks relating to the Notes**

### **3.1 *There is the risk that the market price of the Notes could decrease if the creditworthiness of the Issuer worsens.***

If the likelihood that the Issuer will be in a position to fully perform all obligations under the Notes when they fall due decreases, for example, because of the materialisation of any of the risks described above under "*Risk Factors - Risk relating to the Issuer and the Group*", the market price of the Notes will fall. In addition, even if the likelihood that the Issuer will be in position to fully perform all obligations under the

Notes when they fall due actually has not decreased, market participants could nevertheless have a different perception. Furthermore, the market participants' assessment of the creditworthiness of corporate debtors in general or debtors operating in the same business as the Issuer could adversely change. If any of these risks materialises, third parties would only be willing to purchase Notes for a lower price than before the materialisation of mentioned risk. Under these circumstances, the market price of the Notes is likely to decrease.

### 3.2 *Risk of change in rating.*

Ratings assigned to the Issuer by certain independent rating agencies are an indicator of the Issuer's ability to meet its obligations in a timely manner. The lower the assigned rating is on the respective scale, the higher the respective rating agency assesses the risk that obligations will not be met at all or not be met in a timely manner. The market value of the Notes from time to time is likely to depend upon the level of credit rating assigned to the long-term debt of the Issuer. Rating agencies may change, suspend or withdraw their ratings at short notice. A rating change, suspension or withdrawal may affect the price and the market value of the outstanding Notes. An investor may thus incur financial disadvantages as he may not be able to sell the Notes at a fair price. The Notes are expected to be assigned a credit rating by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). The ratings may not reflect the potential impact of all risks related to the structure, market and additional factors discussed herein, and other factors that may affect the value of the Notes. In addition, S&P or any other rating agency may change its methodologies for rating securities with features similar to the Notes in the future. This may include the relationship between ratings assigned to an issuer's senior securities and ratings assigned to securities with features similar to the Notes, sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Notes were to be subsequently lowered, this may have a negative impact on the trading price of the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). The list of registered and certified credit rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. The Notes are expected to be assigned a rating of BB by S&P. As at the date of this Offering Circular, S&P is a credit rating agency established in the EU and is registered under the CRA Regulation. As such, S&P is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

### 3.3 *There is no active trading market for the Notes*

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If a market does develop, it may not be very liquid. Therefore, no liquidity of any market in the Notes can be assured; nor the ability of the holders of the Notes to sell their Notes or the prices at which they would be able to sell their Notes.

If the Notes are traded after their initial issuance, they may be traded at a discount or at a premium to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. It is possible that the market for the Notes will be subject to disruptions or volatility. Any such disruption or volatility may have a negative effect on holders of either series of the Notes, regardless of the Issuer's prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, Noteholders may not be able to resell a holding of the Notes at a fair value, if at all.

Although a request will be made for listing of the Notes on the Luxembourg Stock Exchange, there is no guarantee that the Notes will be actually listed on that stock exchange or that they will be actively traded. Consequently, there is no guarantee regarding development of trading and creating liquidity with the Notes on an organised market. It can thus happen that the Noteholder is unable to sell the Notes prior to their maturity.

The Issuer has no agreement with any liquidity provider for trading with Notes. Should there be no active trading in these Notes, this could have negative impact on the market price and liquidity of the Notes.

**4. Risks relating to changes in law and regulation**

**4.1 *Changes in laws, regulations or administrative practices could entail risks***

The conditions of the Notes are based on the laws of Germany in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to the laws of Germany or administrative practice after the date of this Offering Circular. Furthermore, the Issuer operates in a heavily regulated environment and has to comply with extensive regulations imposed by the European Union and the Republic of Slovenia. No assurance can be given as to the impact of any possible judicial decision or change to laws or administrative practices of the European Union or the Republic of Slovenia after the date of this Offering Circular.

In addition, changes to regulatory provisions or to their interpretation, to regulatory procedures or measures adopted by supervisory or other regulatory bodies following the issue of the Notes could have a negative impact on the value of the Notes or the rights of the Noteholders arising from the Notes.

## **USE OF PROCEEDS**

In connection with the issue of the Notes, the Issuer will receive net proceeds of EUR 120,000,000. The Issuer intends for the Notes to constitute Tier 2 capital of the Issuer, optimizing its capital structure on an individual and consolidated level, and to use the net proceeds from the issuance of the Notes for general corporate purposes.

## TERMS AND CONDITIONS OF THE NOTES

### 1. **Currency, Denomination, Form, Certain Definitions**

#### 1.1 ***Currency, Denomination, Issue Date***

This issuance of subordinated notes (the "**Notes**") of Nova Ljubljanska banka, d.d., Ljubljana (the "**Issuer**") is being issued on 19 November 2019 (the "**Issue Date**") in Euro (the "**Specified Currency**") in the aggregate principal amount of EUR 120,000,000 (in words: Euro one hundred and twenty million) in the denomination of EUR 100,000 (in words: Euro one hundred thousand) (the "**Specified Denomination**").

#### 1.2 ***Form***

- (a) The Notes are issued in bearer form.
- (b) The Notes are initially represented by a temporary global note (the "**Temporary Global Note**") without interest coupons. The Temporary Global Note will be exchanged for Notes in the Specified Denomination represented by a permanent global note (the "**Permanent Global Note**") and together with the Temporary Global Note each a "**Global Note**") without interest coupons. The Temporary Global Note and the Permanent Global Note shall each be only valid if they bear the signatures of two authorised representatives of the Issuer and shall each be authenticated by or on behalf of the Principal Paying Agent. Definitive notes and interest coupons will not be issued.
- (c) The Temporary Global Note shall be exchangeable for the Permanent Global Note on a date not earlier than 40 days after the date of issue of the Temporary Global Note. Such exchange shall only be made upon delivery of certifications to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note are not U.S. persons (other than certain financial institutions or certain persons holding Notes through such financial institutions) as required by U.S. tax law. Payment of interest on Notes represented by a Temporary Global Note will be made only after delivery of such certifications. A separate certification shall be required in respect of each such payment of interest. Any such certification received on or after the 40th day after the date of issue of the Temporary Global Note will be treated as a request to exchange such Temporary Global Note pursuant to Condition 1.2(c). Any securities delivered in exchange for the Temporary Global Note shall be delivered only outside of the United States.

For purposes of these Terms and Conditions, "**United States**" or "**U.S.**" means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).

#### 1.3 ***Custody – Clearing Systems***

The Global Note will be kept in safekeeping by or on behalf of a Clearing System until all obligations of the Issuer under the Notes have been satisfied.

"**Clearing System**" means each of: Clearstream Banking S.A., Luxembourg, ("**CBL**") and Euroclear Bank SA/NV, as operator of the Euroclear System ("**Euroclear**") (CBL and Euroclear are each an "**ICSD**" (International Central Securities Depository) and together the "**ICSDs**").

The Notes are issued in Classic Global Note form and are kept in safekeeping by a common depository on behalf of the ICSDs.

#### 1.4 ***Certain Definitions***

"**Business Day**" means a calendar day (other than a Saturday or a Sunday) on which the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("**TARGET**") is open and commercial banks and foreign exchange markets in Frankfurt am Main, London and Ljubljana and the Clearing System settle payments in Euro.

"**Holder**" means any holder of a co-ownership interest or other beneficial interest or right in the Global Note.

"**Terms and Conditions**" means these terms and conditions of the Notes.

## 2. **Status**

### 2.1 **Ranking**

The Notes shall constitute direct, unsecured and subordinated obligations of the Issuer and shall qualify as Tier 2 Instruments (as defined below).

In the event of normal insolvency proceedings (bankruptcy proceedings (*stečaj*)) or compulsory liquidation (*prisilna likvidacija*) of the Issuer, the claims on the principal amount of the Notes and any unpaid interest payable under the Notes will rank:

- (a) junior to all present or future claims from: (i) unsecured and unsubordinated instruments or obligations of the Issuer; and (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR;
- (b) *pari passu*: (i) among themselves; and (ii) with all other present or future claims from Tier 2 Instruments of the Issuer; and
- (c) senior to all present or future claims from: (i) Additional Tier 1 instruments of the Issuer pursuant to Article 52 of the CRR; (ii) ordinary shares of the Issuer and any other CET1 instruments of the Issuer pursuant to Article 28 of the CRR; and (ii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank junior to the obligations of the Issuer under the Notes.

"**CRR**" means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant Articles of the CRR include references to any applicable provisions of law amending or replacing such Articles from time to time.

"**Tier 2 Instruments**" means any (directly or indirectly issued) capital instruments that qualify as Tier 2 instruments pursuant to Article 63 of the CRR, including any capital instruments that qualify as Tier 2 instruments pursuant to transitional provisions under the CRR.

### 2.2 **No Set-off, Netting**

The Notes are not subject to any set-off or netting arrangements that would undermine their capacity to absorb losses.

### 2.3 **No Security/Guarantee; No Enhancement of Seniority**

The Notes are neither secured nor subject to a guarantee that enhances the seniority of the claims under the Notes. The Notes are not subject to any arrangement, contractual or otherwise, that enhances the seniority of the claims under the Notes in insolvency or liquidation. No security or guarantee of whatever kind is, or shall at any time be, provided by the Issuer or any other person securing rights of the Holders.

### 2.4 **Possibility of statutory resolution measures**

Prior to any normal insolvency proceedings (bankruptcy proceedings (*stečaj*)) or any compulsory liquidation (*prisilna likvidacija*) of the Issuer, under the applicable banking resolution laws, the Resolution Authority may exercise the power to write down (including to zero) the obligations of the Issuer under the Notes, convert the Notes into shares or other instruments of ownership of the Issuer, in each case in whole or in part, or apply any other resolution tool or action, including (but not limited to) any deferral or transfer of the obligations to another entity, an amendment of the Terms and Conditions or a cancellation of the Notes.

**"Resolution Authority"** means the resolution authority pursuant to Article 4(1)(130) of the CRR which is responsible for recovery or resolution of the Issuer on an individual and/or consolidated basis.

### 3. **Interest**

#### 3.1 ***Interest Rates and Interest Payment Dates***

The Notes shall bear interest on the principal amount of the Notes at the rate of 3.650 per cent. *per annum* (the **"First Rate of Interest"**) from and including 19 November 2019 (the **"Interest Commencement Date"**) to but excluding 19 November 2024 (the **"Reset Date"**) and thereafter at the Reset Rate of Interest (as determined in accordance with Condition 3.4) from and including the Reset Date to but excluding the Maturity Date. Interest will be scheduled to be paid annually on 19 November in each year (each such date, an **"Interest Payment Date"**), commencing on 19 November 2020. Interest will fall due subject to the provisions set out in Condition 4.4.

#### 3.2 ***Calculation of Amount of Interest***

If the amount of interest scheduled to be paid under the Notes is required to be calculated for any period of time: (i) such amount of interest for any Interest Period (as defined below) ending on or prior to the Reset Date shall be calculated by the Calculation Agent by applying the First Rate of Interest to the principal amount of the Notes; and (ii) such amount of interest for any Interest Period commencing on or after the Reset Date shall be calculated by the Calculation Agent by applying the applicable Reset Rate of Interest to the principal amount of the Notes, in each case multiplying such amount by the applicable Day Count Fraction (as defined below), and rounding the resultant figure to the nearest full cent with EUR 0.005 being rounded upwards.

**"Interest Period"** means the period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date.

#### 3.3 ***Day Count Fraction (Actual/Actual (ICMA))***

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest on any Note for any period of time (including the first such day to but excluding the last) (the **"Calculation Period"**):

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which the Calculation Period ends, the number of calendar days in such Calculation Period divided by the number of calendar days in such Determination Period; or
- (b) if the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of:
  - (i) the number of calendar days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the number of calendar days in such Determination Period; and
  - (ii) the number of calendar days in such Calculation Period falling in the next Determination Period divided by the number of calendar days in such Determination Period.

**"Determination Period"** means the period from and including a Determination Date to but excluding the next Determination Date.

**"Determination Date"** means 19 November in each year.

#### 3.4 ***Determination of the Reset Rate of Interest***

- (a) ***Reset Rate of Interest.*** The rate of interest for the Reset Period (the **"Reset Rate of Interest"**) shall be the sum of: (x) the Reference Rate; and (y) the Margin, *per annum*, as determined by the Calculation Agent.

"**Margin**" means 3.833 per cent. *per annum*.

"**Reference Rate**" in respect of the Reset Period means the annual swap rate (expressed as a percentage) for swap transactions in the Specified Currency with a term of five years, which appears on the Screen Page (as defined below) as of 11:00 a.m. (CET time) on the Reset Interest Date (as defined below).

If the Screen Page is unavailable or if the Reference Rate does not appear on the Screen Page as at such time on the Reset Interest Date, the Issuer shall, subject to Condition 3.4(c), request the principal office of each Reference Bank (as defined below) to provide the Calculation Agent with its 5 (five) Year Mid-Swap Rate quotation (expressed as a percentage rate) at approximately 11:00 a.m. (CET time) on the Reset Interest Date.

"**5 (five) Year Mid-Swap Rate**" means the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating interest rate swap transaction in the Specified Currency with a term of five years and in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, where the floating leg, in each case calculated on an Actual/360 day count basis, is based on the 6-month EURIBOR rate.

If three or more of the Reference Banks provide the Calculation Agent with such rates, the Reference Rate for the Reset Period shall be deemed to be the arithmetic mean (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards) of such rates eliminating the highest rate (or, in the event of equality, one of the highest) and the lowest rate (or, in the event of equality, one of the lowest), all as determined by the Calculation Agent.

If only two quotations are provided, the Reference Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reference Rate will be the quotation provided. If no quotations are provided, the Reference Rate, subject to Condition 3.4(c), will be equal to the last available 5-year mid swap rate for euro swap transactions, expressed as an annual rate, on the Reuters screen ICESWAP2 page.

If no quotations are provided, the Reference Rate will be the Reference Rate that appeared on the most recent Screen Page that was available.

"**Reference Banks**" means five leading swap dealers in the interbank market as selected by the Issuer.

"**Reset Interest Date**" means the second TARGET Business Day prior to the Reset Date.

"**Reset Period**" means the period from and including the Reset Date to but excluding the Maturity Date.

"**Screen Page**" means Reuters Screen Page ICESWAP2 under the heading "EURIBOR BASIS – EUR" and above the caption "11:00 AM FRANKFURT" or the successor page displayed by the same information provider or any other information provider nominated by the Issuer as the replacement information provider for the purposes of displaying the Reference Rate.

"**TARGET Business Day**" means a day on which the Trans-European Automated Real-time Gross settlement Express Transfer system 2 (TARGET2) is operational.

- (b) *Notification of Reset Rate of Interest.* The Calculation Agent will cause the Reset Rate of Interest determined in accordance with Condition 3.4(a) to be notified to the Issuer, any stock exchange on which the Notes are from time to time listed (if required by the rules of such stock exchange) and to the Holders in accordance with Condition 11 as soon as possible after its determination.
- (c) *Benchmark Replacement.* Notwithstanding the provisions above in this Condition 3, if with regard to the Reference Rate and/or the 6-month EURIBOR rate (the "**Mid-Swap**

**Floating Leg Benchmark Rate**") a Benchmark Event (as defined below) occurs, then the following provisions shall apply:

- (i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser to determine in the Independent Advisor's reasonable discretion an alternative rate (the "**Alternative Benchmark Rate**") and an alternative screen page or source (the "**Alternative Screen Page**") no later than three Business Days prior to the Reset Interest Date relating to the Reset Period (the "**IA Determination Cut-off Date**") for purposes of determining the Reference Rate for the Reset Period (subject to the subsequent operation of this Condition 3.4(c));
- (ii) the Alternative Benchmark Rate shall be such rate as the Independent Adviser determines in its reasonable discretion has replaced the Reference Rate in customary market usage for purposes of determining a 5-year mid-swap rate denominated in Euro, or, if the Independent Adviser determines in its reasonable discretion that there is no such rate, such other rate as the Independent Adviser determines in its reasonable discretion is most comparable to the Reference Rate, and the Alternative Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate;
- (iii) if the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine an Alternative Benchmark Rate and Alternative Screen Page prior to the IA Determination Cut-off Date in accordance with Condition 3.4(c)(ii) above, then the Reference Rate applicable to the Reset Period shall be equal to the Reset Rate of Interest last determined in relation to the Notes (which may be the First Rate of Interest minus the Margin);
- (iv) if an Alternative Benchmark Rate and Alternative Screen Page is determined in accordance with the preceding provisions, such Alternative Benchmark Rate and Alternative Screen Page shall be the benchmark and the Screen Page in relation to the Reset Period;
- (v) if the Independent Adviser determines an Alternative Benchmark Rate in accordance with the above provisions, the Independent Adviser may also, following consultation with the Issuer, determine in its reasonable discretion any necessary changes to the Reference Rate, the Mid-Swap Floating Leg Benchmark Rate, the Day Count Fraction, the business day convention, the Business Days and/or the Reset Interest Date applicable to the Notes (including any necessary adjustment factor that is necessary to make the Reference Rate comparable to a 5-year mid-swap rate based on the 6-months interbank deposit rate), and the method for determining the fall-back rate in relation to the Notes, in order to follow market practice in relation to the Alternative Benchmark Rate, which changes shall be deemed to apply to the Notes for all the Reset Period. Notwithstanding the foregoing, the Issuer shall not be obliged to apply such Alternative Benchmark Rate if this would disqualify the Notes as Tier 2 Instruments; and
- (vi) the Issuer shall, promptly following the determination of any Alternative Benchmark Rate and Alternative Screen Page, give notice thereof and of any changes which are deemed to apply to the Notes pursuant to Condition 3.4(c)(xi) above in accordance with Condition 11 to the Holders.

For the purposes of this Condition 3.4(c), "**Independent Adviser**" means an independent financial institution in the Euro-Zone of international repute or other independent financial adviser in the Euro-Zone experienced in the international capital markets, in each case appointed by the Issuer at its own expense.

For the purposes of this Condition 3.4(c), "**Benchmark Event**" means:

- (vii) the Mid-Swap Floating Leg Benchmark Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

- (viii) a public statement by the administrator of the Mid-Swap Floating Leg Benchmark Rate stating that it will, by a specified date within the following six months, cease to publish the Mid-Swap Floating Leg Benchmark Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Mid-Swap Floating Leg Benchmark Rate); or
  - (ix) a public statement by the supervisor or the administrator of the Mid-Swap Floating Leg Benchmark Rate stating that the Mid-Swap Floating Leg Benchmark Rate has been or will be, by a specified date within the following six months, permanently or indefinitely discontinued; or
  - (x) a public statement by the supervisor or the administrator of the Mid-Swap Floating Leg Benchmark Rate stating that the Mid-Swap Floating Leg Benchmark Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months; or
  - (xi) it has or will prior to the next Reset Interest Date become unlawful for any Paying Agent or the Calculation Agent to calculate any payments due to be made to the Holders using the Mid-Swap Floating Leg Benchmark Rate.
- (d) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3 by the Calculation Agent or, as the case may be, any Independent Adviser or the Issuer shall (in the absence of wilful default, bad faith, inequity or manifest error) be binding on the Issuer, the Paying Agent and the Holders.

### 3.5 ***Interest upon Delayed Redemption***

The Notes shall cease to bear interest from the expiry of the calendar day preceding the due date for redemption (if the Notes are redeemed). If the Issuer fails to redeem the Notes when due, interest shall continue to accrue on the principal amount of the Notes from and including the due date for redemption to but excluding the date of actual redemption of the Notes at the applicable rate of interest determined pursuant to this Condition 3. This does not affect any additional rights that might be available to the Holders.

## 4. **Payments**

### 4.1 ***Payments of Principal***

Payment of principal and any additional amounts in respect of the Notes shall be made, subject to Condition 4.3 below, to the Clearing System or to its order for credit to the accounts of the relevant account holders of the Clearing System.

### 4.2 ***Payments of Interest***

Payment of interest on the Notes and any additional amounts shall be made, subject to Condition 4.3, to the Clearing System or to its order for credit to the relevant account holders of the Clearing System, upon due certification as provided in Condition 1.2(c).

### 4.3 ***Manner of Payment***

Subject to applicable fiscal and other laws and regulations, payments of amounts due in respect of the Notes shall be made in the Specified Currency.

### 4.4 ***Discharge***

The Issuer shall be discharged by payment to, or to the order of, the Clearing System.

#### 4.5 ***Payment Day***

If any payment of principal or interest with respect to a Note is to be effected on a day other than a Business Day, payment shall be effected on the next following Business Day. In this case, the relevant Holders shall not be entitled to any payment claim nor to any interest claim or other compensation with respect to such delay.

#### 4.6 ***References to Principal and Interest***

References in these Terms and Conditions to "**principal**" in respect of the Notes shall be deemed to include, as applicable the Redemption Amount of the Notes (as defined in Condition 5.1); and any premium and any other amounts (other than interest) which may be payable under or in respect of the Notes.

### 5. **Redemption**

#### 5.1 ***Redemption at Maturity***

Unless previously redeemed, repurchased or cancelled, the Notes shall be redeemed at their principal amount (the "**Redemption Amount**") on 19 November 2029 (the "**Maturity Date**").

#### 5.2 ***No Early Redemption at the Option of a Holder***

The Holders do not have a right to demand the early redemption of the Notes.

#### 5.3 ***Early Redemption for Reasons of Non-Approval***

If a Non-Approval Event occurs, the Issuer may, upon giving notice in accordance with Condition 5.8, redeem the Notes early in whole, but not in part, at their principal amount together with accrued and unpaid interest thereon to but excluding the date specified for the redemption at any time on the date of early redemption specified in the notice.

A "**Non-Approval Event**" occurs if, by 15 March 2020, the Issuer fails to obtain the permission of the Competent Authority pursuant to Article 129(2) of the Slovenian Banking Act (*Zakon o bančništvu – "ZBan-2"*) to include the Notes in whole in the calculation of its Tier 2 capital pursuant to Article 71 of the CRR.

#### 5.4 ***Early Redemption at the Option of the Issuer***

The Issuer may, upon giving notice in accordance with Condition 5.8, redeem the Notes, in whole, but not in part, at their principal amount together with accrued and unpaid interest thereon to but excluding the date of redemption on 19 November 2024, provided that the conditions to early redemption and repurchase set forth in Condition 5.7 are met. Any notice of redemption given in accordance with Condition 5.8 may only be given after the conditions to early redemption set forth in Condition 5.7 are met.

#### 5.5 ***Early Redemption for Reasons of Taxation***

If a Tax Event occurs, the Issuer may, upon giving notice in accordance with Condition 5.8, redeem the Notes early in whole, but not in part, at their principal amount together with accrued and unpaid interest thereon to but excluding the date specified for the redemption at any time on the date of early redemption specified in the notice, provided that the conditions to early redemption and repurchase set forth in Condition 5.7 are met. Any notice of redemption given in accordance with Condition 5.8 may only be given after the conditions to early redemption set forth in Condition 5.7 are met.

A "**Tax Event**" occurs if there is a Tax Deductibility Event or a Gross-up Event, which change or amendment or clarification: (x) subject to (y), becomes effective on or after the Issue Date; or (y) in the case of a change, if such change is enacted on or after the Issue Date.

A "**Gross-up Event**" occurs if there is a change in the applicable tax treatment of the Notes based on a decision or change in law, regulation or interpretation of the tax authority of the Republic of

Slovenia (or any political subdivision or any authority thereof or therein having power to tax) having competence over the Issuer as a result of which the Issuer has paid, or will or would on the next Interest Payment Date be required to pay, any Additional Amounts (as defined in Condition 7.1).

A "**Tax Deductibility Event**" occurs if there is a change in the applicable tax treatment of the Notes as a result of which the Issuer, in computing its taxation liabilities in the Republic of Slovenia, would not be entitled to claim a deduction in respect of interest paid on the Notes, or such deductibility is materially reduced.

#### 5.6 ***Early Redemption for Regulatory Reasons***

If a Regulatory Event occurs, the Issuer may, upon giving notice in accordance with Condition 5.8, early redeem the Notes in whole, but not in part, at their principal amount together with accrued and unpaid interest thereon to but excluding the date specified for the redemption at any time on the date of early redemption specified in the notice, provided that the conditions to early redemption and repurchase set forth in Condition 5.7 are met. Any notice of redemption given in accordance with Condition 5.8 may only be given after the conditions to early redemption set forth in Condition 5.7 are met.

A "**Regulatory Event**" occurs if there is a change in the regulatory classification of the Notes that would be likely to result in their exclusion in full or in part from own funds or reclassification as a lower quality form of own funds (in each case, on an individual and/or consolidated basis of the Issuer).

#### 5.7 ***Conditions to Early Redemption and Repurchase***

Any early redemption pursuant to Condition 5.4, Condition 5.5 or Condition 5.6 and any repurchase pursuant to Condition 10.2 is subject to:

- (a) the Issuer having obtained the prior permission of the Competent Authority for the redemption or any repurchase pursuant to Condition 10.2 in accordance with Articles 77 and 78 of the CRR, if applicable to the Issuer at that point in time, whereas such permission may, *inter alia*, require that:
  - (i) either the Issuer (before or at the same time with such early redemption or such repurchase) replaces the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
  - (ii) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds and eligible liabilities of the Issuer would, following such redemption or repurchase, exceed the requirements laid down in the CRR, in Directive 2013/36/EU and in Directive 2014/59/EU, each as amended, by a margin that the Competent Authority considers necessary at such time; and
- (b) in the case of any early redemption prior to the fifth anniversary of the date of issuance of the Notes:
  - (i) due to a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the Issue Date; or
  - (ii) due to a Regulatory Event, the Competent Authority considers such change to be sufficiently certain and the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

Notwithstanding the above conditions, if, at the time of any early redemption or repurchase, the prevailing supervisory regulations permit the early redemption or repurchase only after compliance with one or more alternative or additional pre-conditions to those set out above, the Issuer shall comply with such other and/or, as appropriate, additional pre-conditions, if any.

For the avoidance of doubt, any refusal of the Competent Authority and/or the Resolution Authority to grant any required permission, approval or other consent shall not constitute a default for any purpose.

"**Competent Authority**" means the competent authority pursuant to Article 4(1)(40) of the CRR which is responsible to supervise the Issuer on an individual and/or the consolidated basis.

#### 5.8 ***Early Redemption Notice; Redemption Amount***

Any notice of early redemption in accordance with Condition 5.3, Condition 5.4, Condition 5.5 and Condition 5.6 shall be given by the Issuer to the Holders in accordance with Condition 11 observing a notice period of not less than 30 calendar days nor more than 60 calendar days. Such notice shall be irrevocable and shall specify:

- (a) the date of early redemption; and
- (b) the Redemption Amount at which the Notes are to be redeemed.

#### 6. **Paying Agent(s) and Calculation Agent**

##### 6.1 ***Appointment; Specified Offices***

The initial principal paying agent (the "**Principal Paying Agent**"), the initial paying agent(s) (the "**Paying Agent(s)**") and the initial calculation agent (the "**Calculation Agent**") and their respective initial specified offices are:

Principal Paying Agent: Citibank N.A., London Branch

Where these Terms and Conditions refer to the term "**Paying Agent(s)**", such term shall include the Principal Paying Agent.

Calculation Agent: Citibank N.A., London Branch

The Paying Agent(s) and the Calculation Agent reserve the right at any time to change their respective specified office to some other specified office in the same city.

##### 6.2 ***Variation or Termination of Appointment***

The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent or the Calculation Agent, additional or other Paying Agent or another Calculation Agent. The Issuer shall at all times maintain: (i) provided that the Notes are listed on a stock exchange, a Paying Agent with a specified office in such country as may be required by the rules of such stock exchange or its supervisory authorities; and (ii) a Calculation Agent. The Issuer will give notice to the Holders of any variation, termination, appointment of or any other change in any Agent as soon as possible upon the effectiveness of such change.

##### 6.3 ***Agents of the Issuer***

The Agents act solely as agents of the Issuer and do not have any obligations towards or relationship of agency or trust to any Holder.

##### 6.4 ***Determinations Binding***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Terms and Conditions by any Agent shall (in the absence of wilful default, bad faith, inequitableness or manifest error) be binding on the Issuer, all other Agents and the Holders.

## 7. **Taxation**

### 7.1 **General Taxation**

All payments of interest in respect of the Notes will be made by the Issuer without withholding or deduction for or on account of any taxes, duties or governmental charges of whatever nature (the "**Taxes**") imposed or levied by way of withholding or deduction by or on behalf of the Republic of Slovenia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. If such withholding or deduction is required by law, the Issuer will, to the extent permitted by law, pay such additional amounts in relation to interest (but not principal) as will be necessary in order that the net amounts received by the Holder (or a third party on behalf of the Holder) after such withholding or deduction will equal the respective amounts which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction (the "**Additional Amounts**"). However, no such Additional Amounts will be payable:

- (a) in respect of any amount payable in respect of a Note received by or on behalf of a person who is subject to such Tax in respect of such payment by reason of his being connected with the Republic of Slovenia (or any political subdivision thereof) otherwise than merely by holding such Note or receiving principal or interest in respect thereof; or
- (b) in respect of any amount payable in respect of a Note received by or on behalf of a person who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the Issuer or relevant tax authority if, after having been requested to make such a declaration or claim, such person fails to do so (provided that a mechanism is available for such declaration or claim to be provided); or
- (c) on account of any Taxes which are payable by any person (including the Issuer) acting as custodian bank or collecting agent on behalf of a Holder, or by the Issuer if no custodian bank or collecting agent is appointed or otherwise in any manner which does not constitute a withholding or deduction by the Issuer from payments of principal or interest made by it; or
- (d) on account of any Taxes withheld or deducted pursuant to an international treaty or a civil law agreement concluded by a state and/or one of its political subdivisions and/or one of its authorities and/or a group of states on the one hand and the Republic of Slovenia and/or one of its political subdivisions and/or the European Union and/or the Issuer and/or an intermediary on the other hand; or
- (e) on account of any Taxes which are refundable or for which a relief at source is available pursuant to the laws of the Republic of Slovenia, a European Union directive or regulation or an international treaty or understanding to which the Republic of Slovenia and/or the European Union is a party/are parties.

### 7.2 **U.S. Foreign Account Tax Compliance Act (FATCA)**

The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Holder or beneficial owner of Notes sufficient funds for the payment of any tax that it is required by law to withhold or deduct pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or the intergovernmental agreement between the United States and the other jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

## 8. **Amendments to the Terms and Conditions, Holders' Representative**

### 8.1 ***Amendment of the Conditions***

The Issuer may agree with the Holders on amendments to the Terms and Conditions or on other matters by virtue of a majority resolution of the Holders pursuant to §§ 5 et seqq. of the German Act on Issues of Debt Securities (*Gesetz über Schuldverschreibungen aus Gesamtemissionen - "SchVG"*), as amended from time to time.

The Issuer's right under this Condition 8.1 is subject to the prior permission of the Competent Authority and/or the Resolution Authority of the Issuer if such consent is required at the time of any such amendment.

In particular, the Holders may consent to changes which materially change the substance of the Terms and Conditions by resolutions passed by such a majority of votes of the Holders as stated under Condition 8.2 below, including such measures as provided for under § 5 paragraph 3 of the SchVG. A duly passed majority resolution shall be binding upon all Holders.

### 8.2 ***Majority***

Except as provided for by the following sentence and the quorum requirements in accordance with § 15 paragraph 3 of the SchVG or § 18 paragraph 4 of the SchVG in connection with § 15 paragraph 3 of the SchVG being met, the Holders shall pass resolutions by simple majority of the voting rights participating in the vote. Resolutions which materially change the substance of the Terms and Conditions, in particular in the cases of § 5 paragraph 3 numbers 1 through 8 of the SchVG, may only be passed by a majority of at least 75 per cent. of the voting rights participating in the vote (a "**Qualified Majority**").

### 8.3 ***Vote***

Resolutions of the Holders shall be made either in a Holders' meeting or by means of a vote without a meeting (*Abstimmung ohne Versammlung*) (§§ 9 et seq. and § 18 of the SchVG).

The convening notice of a Holders' meeting will provide the further details relating to the resolutions and the voting procedure. The subject matter of the vote as well as the proposed resolutions will be notified to Holders in the agenda of the meeting. The attendance at the Holders' meeting or the exercise of voting rights requires a registration of the Holders prior to the meeting. Any such registration must be received at the address stated in the convening notice by no later than the third calendar day preceding the Holders' meeting.

Resolutions of the Holders by means of a vote not requiring a physical meeting (*Abstimmung ohne Versammlung*) will be made in accordance with § 18 of the SchVG.

### 8.4 ***Eligibility***

Holders must demonstrate their eligibility to participate in the vote at the time of voting by means of a special confirmation of their depository bank and by submission of a blocking instruction by their depository bank for the benefit of the Principal Paying Agent as depository (*Hinterlegungsstelle*) for the voting period.

### 8.5 ***Notices***

Any notices concerning this Condition 8 shall be made exclusively pursuant to the provisions of the SchVG.

### 8.6 ***Holders' Representative***

The Holders may by majority resolution provide for the appointment or dismissal of a holders' representative (the " **Holders' Representative**"), the duties and responsibilities and the powers of such Holders' Representative, the transfer of the rights of the Holders to the Holders' Representative and a limitation of liability of the Holders' Representative. Appointment of a Holders' Representative may only be passed by a Qualified Majority if such Holders' Representative is to

be authorised to consent, in accordance with Condition 8.2 hereof, to a material change in the substance of the Terms and Conditions or other material matters.

9. **Prescription/Presentation Period**

The period for presentation of the Notes (§ 801, paragraph (1), sentence 1 of the German Civil Code) shall be reduced to ten years and the period of limitation for claims under the Notes presented during the period for presentation shall be two years calculated from the expiry of the relevant presentation period.

10. **Further Issues of Notes, Repurchases and Cancellation**

10.1 ***Further Issues of Notes***

The Issuer may without the consent of the Holders subject to regulatory and other statutory provisions, issue further Notes having the same conditions as the Notes in all respects (or in all respects except for the issue date, issue price and the first interest payment) so as to form a single series with this tranche.

10.2 ***Repurchases***

On or after 19 November 2024 and provided that all applicable regulatory and other statutory restrictions are observed and provided further that the conditions to early redemption and repurchase laid down in Condition 5.7 are met, the Issuer may repurchase some (but not all) Notes in the open market or otherwise at any price. Notes repurchased by the Issuer may, at the option of the Issuer, be held, resold or surrendered to the Principal Paying Agent for cancellation.

10.3 ***Cancellation***

On or after 19 November 2024 all Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

11. **Notices**

11.1 ***Notices of the Issuer/to the Holders***

All notices of the Issuer concerning the Notes shall be published (i) in such media as determined by law and the rules and regulations of the stock exchange on which the Notes are listed and (ii) in electronic form on the website of the Issuer (www.nlb.si). Any notice so given will be deemed to have been validly given on the fifth calendar day following the date of such publication (or, if published more than once, on the fifth calendar day following the date of the first such publication) unless the notice provides for a later effective date.

11.2 ***Publication of Notices of the Issuer via the Clearing System***

If the publication of notices pursuant to Condition 11.1 is no longer required by law, the Issuer may, in lieu of publication in the media set forth in Condition 11.1, deliver the relevant notices to the Clearing System, for communication by the Clearing System to the Holders. Any such notice shall be deemed to have been given to the Holders on the seventh calendar day after the calendar day on which said notice was given to the Clearing System.

11.3 ***Form of Notice***

Notices regarding the Notes shall only be valid if made in English.

12. **Applicable Law, place of Jurisdiction and Enforcement**

12.1 ***Applicable Law***

Except as provided in the next sentence, the Notes, as to form and content, and all rights and obligations of the Holders and the Issuer, shall be governed by German law. The status provisions in Condition 2 shall be governed by, and shall be construed exclusively in accordance with, Slovenian law.

## 12.2 ***Jurisdiction***

The District Court (*Landgericht*) in Frankfurt am Main, Germany, shall have non-exclusive jurisdiction for any action or other legal proceedings ("**Proceedings**") arising out of or in connection with the Notes. This is subject to any exclusive court of venue for specific legal proceedings in connection with the SchVG.

## 12.3 ***Enforcement***

Any Holder may in any Proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in its own name its rights arising under such Notes on the basis of a statement issued by the Custodian (as defined below) with whom such Holder maintains a securities account in respect of the Notes (a) stating the full name and address of the Holder (b) specifying the aggregate principal amount of Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b).

For purposes of the foregoing, "**Custodian**" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Notes and includes the Clearing System. Each Holder may, without prejudice to the foregoing, also protect and enforce its rights under the Notes in any other way which is admitted in the country of the proceedings.

## DESCRIPTION OF THE ISSUER AND THE GROUP

### INTRODUCTION

#### NLB

Nova Ljubljanska banka d.d., Ljubljana ("**NLB**", the "**Bank**" or the "**Issuer**") is a company organised in accordance with the Slovenian Companies Act (*Zakon o gospodarskih družbah ZGD*) in the form of *delniška družba*, and is registered in the Slovenian business register (*Poslovni register Slovenije*) under identification number (*matična številka*) 5860571000. NLB's corporate seat is in Ljubljana, its registered office is Trg Republike 2, 1520 Ljubljana, Republic of Slovenia, and its telephone number is +386 1 476 39 00.

NLB traces its origins back to 1889 (when Mestna hranilnica ljubljanska was established). NLB was established in the Republic of Slovenia under its current name on 27 July 1994, with certain assets of Ljubljanska banka transferred to NLB. NLB is a financial and banking institution incorporated in the Republic of Slovenia as a joint stock company, with a network of 93 branches in its domestic market as at 30 June 2019. NLB provides services to corporate and retail clients and had 2,659 employees as at 30 June 2019. NLB pursues a universal banking model comprising retail banking operations and corporate and investment banking. It is also a leading bank in Slovenia with a 22.8 per cent. market share (by total assets) as at 30 June 2019<sup>1</sup>. NLB's shares are listed on the Prime Market of the Ljubljana Stock Exchange and the global depository receipts ("**GDRs**"), representing shares, are listed on the Main Market of the London Stock Exchange. The largest shareholder is the Republic of Slovenia which holds 25 per cent. plus one share of the share capital of NLB as at 30 June 2019.

Moody's Investors Services Ltd ("**Moody's**"), Fitch Ratings Limited ("**Fitch**") and S&P currently assign ratings to the Issuer. As at the date of this Offering Circular, the Issuer's ratings are as follows:

|                      | <u>Moody's*</u> | <u>Fitch</u> | <u>S&amp;P</u> |
|----------------------|-----------------|--------------|----------------|
| Long-term debt.....  | Baa2            | BB+          | BBB-           |
| Short-term debt..... | P-2             | B            | A-3            |
| Rating outlook.....  | Positive        | Stable       | Stable         |

Note: Credit or corporate ratings may not reflect all risks. One or more independent rating agencies may assign ratings to the Notes and/or the Issuer. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this section, and other factors that may affect the value of the Notes or the standing of the Issuer. A credit rating and/or a corporate rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

\* Unsolicited rating.

NLB, which is the NLB Group's (as defined below) largest operating entity (representing 69.5 per cent. of the total assets of the NLB Group as at 30 June 2019), is the parent company of the NLB Group and as such is responsible for its strategic direction, in addition to defining the objectives of individual subsidiaries, providing operational support and monitoring risks.

As at 30 June 2019 and 31 December 2018, NLB had total assets on an unconsolidated basis of EUR 9,143 million and EUR 8,811 million respectively, loans and advances to customers of EUR 4,434 million and EUR 4,451 million respectively, EUR 7,255 million and EUR 7,033 million respectively in deposits from customers and subordinated liabilities, and EUR 1,288 million and EUR 1,295 million respectively in shareholders' equity.

NLB is regulated by the ECB and the Bank of Slovenia under the Single Supervisory Mechanism.

#### NLB Group

NLB and its consolidated subsidiaries (the "**NLB Group**" or the "**Group**") is a Slovenian banking and financial group. From 2000 to 2008 the NLB Group focused on expanding its business in South-Eastern Europe ("**SEE**"). Thereafter, it pursued a strategy of reducing the number of companies in the Group, changes to corporate governance and organisational structure and strengthening control mechanisms.

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<sup>1</sup> Source: Data of Bank of Slovenia

From 2011, the NLB Group implemented a strategy of focusing on its core activities while gradually withdrawing from other (non-core) activities, with a view to improving its competitive position and financial performance.

The NLB Group has successfully undertaken a restructuring strategy since 2016 and thereby has stabilised its business and returned to profit in all of its core markets. The Group is now facing more solid macroeconomic conditions and improved banking sector performance across SEE markets and in September 2019 the NLB Group approved the key elements of a new, comprehensive five-year strategy.

As at 30 June 2019, the NLB Group's core and non-core activities consisted of seven banks and several companies located in the Republic of Slovenia, SEE and elsewhere. The core activities of the NLB Group principally comprise banking, asset management (investment funds) and life insurance. The key core market of the NLB Group is NLB's home market, the Republic of Slovenia, where 58.4 per cent. of the NLB Group's revenues were generated in the six months ended 30 June 2019. Other core markets include those markets where the NLB Group carries out banking activities; namely, Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia and Serbia. In these markets, the Group continues to work towards creating synergies between its subsidiaries, as well as seeking to streamline the operations of each subsidiary.

As at 30 June 2019 and 31 December 2018, the NLB Group had a total of 320 branches (of which 227 operate in the banking markets of SEE) and 327 branches respectively, total assets of EUR 13,164 million and EUR 12,740 million respectively, loans and advances to customers of EUR 7,255 million and EUR 7,125 million respectively, deposits from customers and subordinated liabilities of EUR 10,798 million and EUR 10,479 million respectively, and EUR 1,587 million and EUR 1,616 million respectively in shareholders' equity.

## SHAREHOLDER STRUCTURE OF NLB

NLB's issued share capital is divided into 20,000,000 shares. The shares are listed on the Prime Market of the Ljubljana Stock Exchange (ISIN SI0021117344, Ljubljana Stock Exchange trading symbol: NLBR) and the GDRs, representing shares, are listed on the Main Market of the London Stock Exchange (ISIN: US66980N2036 and US66980N1046, London Stock Exchange GDR trading symbol: NLB and 55VX). Five GDRs represent one share of NLB.

As at 30 September 2019, NLB had an equity market capitalisation of EUR 1,092,000,000.

The following table shows NLB's main shareholders as of 30 September 2019<sup>(5)</sup>:

| Shareholder  | Number of shares  | Percentage of shares |
|--|-------------------|----------------------|
| Bank of New York Mellon on behalf of the GDR holders <sup>(1)</sup> .....                  | 12,578,778        | 62.89                |
| • of which Brandes Investment Partners, L.P. <sup>(2)</sup> .....                          | /                 | >5 and <10           |
| • of which European Bank for Reconstruction and Development (EBRD) <sup>(2)(3)</sup> ..... | /                 | >5 and <10           |
| • of which Schroders plc <sup>(2)(4)</sup> .....   | /                 | >5 and <10           |
| Republic of Slovenia .....   | 5,000,001         | 25.00                |
| Other shareholders .....   | 2,421,221         | 12.11                |
| <b>Total</b> .....   | <b>20,000,000</b> | <b>100.00</b>        |

<sup>(1)</sup> The Bank of New York Mellon holds shares in its capacity as the depositary (the GDR Depositary) for the GDR holders and is not the beneficial owner of such shares. The GDR holders have the right to convert their GDRs into shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the shareholder meeting or to exercise any voting rights under the deposited shares.

<sup>(2)</sup> The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.

<sup>(3)</sup> Data confirmed by GDR holder as at 4 July 2019 (number of shares: 1,425,000, percentage of shares: 7.125).

<sup>(4)</sup> Data confirmed by GDR holder as at 9 September 2019 (number of shares: 1,009,587, percentage of shares: 5.048).

<sup>(5)</sup> Information is sourced from NLB's shareholders book accessible at the web services of CSD (Central Security Depositary, Slovenian: KDD - Centralna klirinško depotna družba) and available to CSD members. Information on major holdings is based on the self-declarations by individual holders pursuant to the applicable provisions of Slovenian legislation, which require that the holders of shares in a listed company notify the company whenever their direct and/or indirect holdings pass the set thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50% or 75%. The table lists all self-declared major holders whose notifications have been received. In reliance on this obligation vested with the holders of major holdings, the Bank postulates that no other entities nor any natural person holds directly and/or indirectly 10 or more per cent. of the Bank's shares.

## HISTORY OF THE ISSUER

NLB was established under its current name by the Slovenian Constitutional Act (*Ustavni zakon o dopolnitvah ustavnega zakona za izvedbo Temeljne ustavne listine o samostojnosti in neodvisnosti Republike Slovenije (UZITUL-A)*) on 27 July 1994.

Pursuant to the Constitutional Act, NLB took over part of the assets, liabilities and operations of Ljubljanska banka.

Since 1994, a number of events have contributed to the NLB Group in its current form. After having consolidated its leading market position in its home market of the Republic of Slovenia in the late 1990s and early 2000s, NLB focused on expanding its business in the rest of SEE between 2000 and 2008.

In 2001, the government of the Republic of Slovenia adopted a privatisation programme for NLB. The first phase of privatisation concluded in 2002 with a 34 per cent. stake being purchased by the Belgian banking and insurance group, KBC, and a 5 per cent. stake by the European Bank for Reconstruction and Development ("**EBRD**"). EBRD withdrew from NLB's ownership structure in 2008 by way of a sale of its 4.5 per cent. stake to the private equity arm of the financial group Poteza.

From the onset of the global financial crisis in 2008, NLB began reducing the number of companies in the NLB Group and made changes to its corporate governance and organisational structure in order to strengthen its internal control mechanisms. The number of NLB Group entities was also reduced through a series of mergers of subsidiaries operating for the purposes of synergy benefits and cost rationalisation. From 2010 onwards, the NLB Group has been in the process of divesting non-core subsidiaries based on the new strategy and restructuring plan, which aims to improve the sustainability of NLB operations.

In March 2011, NLB completed a EUR 250 million capital increase, with the Republic of Slovenia subscribing for 97.35 per cent. of the newly issued shares due to a lack of interest from private investors and paying in a total amount of EUR 243.4 million, with other investors subscribing for 2.65 per cent. of the capital increase. In line with relevant EU legislation, the Slovenian authorities notified the measure to the EC and, with a decision dated 7 March 2011, the EC authorised such recapitalisation as emergency aid on the basis of Article 107(3)(b) of the TFEU upon the submission of a restructuring plan.

In 2012, NLB's Tier I capital was further increased by more than EUR 500 million through the provision of a hybrid loan by the Republic of Slovenia in the amount of EUR 320 million, the issue of new shares to Pension Fund Management ("**KAD**") and the Slovenian Restitution Fund ("**SOD**") in the amount of EUR 61 million and through EUR 153 million in net profit recorded during 2012, as a result of the repurchase of certain of NLB's existing subordinated instruments at a discount. In a decision dated 2 July 2012, the EC concluded that this recapitalisation constituted state aid pursuant to Article 107(1) of the TFEU and found it temporarily compatible with the internal market as rescue aid for reasons of financial stability until a final decision was issued on the restructuring plan. At the same time, the EC initiated the procedure set out in Article 108(2) of the TFEU relating to the formal investigation of the restructuring plan of NLB. In order to comply with the EC's decision, the Republic of Slovenia additionally increased NLB's capital by an amount of EUR 1.9 million at a discounted share price, which brought the total amount of state aid received by NLB in 2012 to EUR 382.9 million. In December 2012, its share in NLB capital further increased after KBC sold its existing 22.04 per cent. stake to the Republic of Slovenia, resulting in KBC's complete withdrawal from the ownership structure of NLB.

In 2013, the principal and interest of the EUR 320 million hybrid loan was converted into NLB's common equity as a result of the fulfilment of conditions for its conversion.

In January 2013, the Republic of Slovenia submitted a draft of the Restructuring Plan to the EC. On the basis of the Restructuring Plan and commitments provided by the Republic of Slovenia to the EC on 13 December 2013 and as amended on 11 May 2017, on 18 December 2013 the EC issued the EC Decision, approving the state aid received by NLB up to that point (EUR 243.4 million in 2011 and EUR 382.9 million in 2012) and the state aid which was received by NLB in December 2013 (EUR 1,558 million and the transfer of impaired assets to the BAMC with an aid element of EUR 130 million as discussed below).

Pursuant to the Bank of Slovenia Decision on extraordinary measures of 17 December 2013, which was issued in relation to the EC Decision, all Qualified Liabilities of NLB were terminated, including NLB's share capital and the subordinated liabilities, and the Republic of Slovenia paid in EUR 1,551 million into

the capital of NLB (NLB's share capital was simultaneously reduced to zero via the termination of liabilities therefrom and the rescinding and deletion of NLB's shares and then increased to EUR 200 million). On 20 December 2013, impaired assets with a gross value of EUR 2.2 billion were transferred from NLB to BAMC, a "bad bank" established by the Republic of Slovenia, for which NLB received bonds issued by the BAMC (and guaranteed by the Republic of Slovenia) in compensation.

From 2014 onwards there has been a significant increase in NLB's market penetration and improvements to its organisational structure.

The main milestones of the transformation programme first established in 2012 have been achieved or exceeded and in 2015 and 2016, all the NLB Group's members in core international markets including North Macedonia, Bosnia and Herzegovina, Montenegro, Kosovo and Serbia, where the NLB Group operates through its banking subsidiaries (together with the NLB Group's members in the Republic of Slovenia, the "**Core NLB Group Members**") as well as all core business segments recorded profits. In addition, the action plan to reduce non-performing loans and wind down the NLB Group's non-core activities has seen substantial progress. These developments enable more focused management attention which, combined with continual enhancements of both new proactive sales activities as well as the management practices, have been the primary preconditions for continuing profitable operations.

In its core business, NLB has continued to pursue three main sets of activities: a focus on small and medium-sized enterprises ("**SMEs**"); an improvement in the effectiveness of the sales force; and an intensified development of distribution channels and new solutions for clients. NLB has sought to reposition itself in the Slovenian market as a pioneer of retail solutions, while reinforcing its status as a reliable and responsible partner for Slovenian corporates.

Amongst other measures undertaken to improve operations across the NLB Group since May 2016 all subsidiary banks have operated under the uniform brand "NLB Banka", with the goal of improving brand recognition and enabling NLB to achieve targeted synergies, including enabling multiple banks to participate in joint campaigns across several markets with a lower marketing and branding cost.

In March 2018 NLB Banka, Skopje sold its subsidiary NLB Nov penziski fond, Skopje to Sava RE. Prior to the sale NLB Nov penziski fond, Skopje was 51 per cent. owned by NLB and 49 per cent. owned by NLB Banka, Skopje.

In September 2018, NLB sold the shares representing 28.13 per cent. of the share capital of Skupna pokojninska družba d.d. Ljubljana to Zavarovalnica Triglav d.d., as a result of which NLB is no longer a shareholder in Skupna pokojninska družba d.d. Ljubljana.

The first phase of privatisation of the Bank was concluded on 14 November 2018, after which the Republic of Slovenia reduced its shareholding in NLB from 100 per cent. to 35 per cent. of NLB's share capital. On 19 June 2019, the second phase of the privatisation process of NLB was completed by way of an accelerated bookbuilding of 10 per cent. of the Republic of Slovenia's stake in the NLB's share capital minus one share. After the completion of these phases, the Republic of Slovenia remains the largest shareholder of NLB, owning a 25 per cent. stake plus one share. On conclusion of privatisation almost all restrictions resulting from the commitments made by the Republic of Slovenia to the EC were lifted (for further detail see – "*Description of the Issuer and the Group - The European Commission's decision on state aid and Final EC Decision*").

#### **EC DECISION ON STATE AID, FINAL EC DECISION AND BANK OF SLOVENIA DECISION ON EXTRAORDINARY MEASURES RELATING TO CAPITAL ADEQUACY**

In relation to the government of the Republic of Slovenia's participation in the capital increases carried out by NLB in 2011 and 2012, the European Commission ("**EC**") initiated a procedure to determine the compatibility of this participation with the EU state aid rules. For each capital increase, the EC issued a temporary decision which, in accordance with European Union ("**EU**") rules regarding state aid, required the submission of a restructuring plan for NLB. At that time the Slovenian authorities made a commitment to various limitations on certain NLB activities (which also apply to the NLB Group for the purposes of the EC's determination), in particular with regards to the payment of dividends and returns on capital instruments, commercial strategies and the expansion of its business activities.

In connection with this process, NLB first submitted a restructuring plan to the EC in January 2013 (the "**Restructuring Plan**"). The Restructuring Plan included measures aimed at ensuring a long-term profitable business model that no longer requires state aid for normal operations. In accordance with the EU state aid rules, the Restructuring Plan also included measures NLB had to take to ensure that the burden of the costs of restructuring was properly allocated, as well as measures by NLB to limit the distortion of competition due to the receipt of state aid.

In accordance with the recommendations of the European Council published in June 2013, NLB (along with the majority of other Slovenian banks) underwent an Asset Quality Review ("**AQR**") and "bottom-up" stress tests.

In December 2013, the results of the AQR and stress test exercise were published and revealed a capital shortfall for NLB of EUR 1,668 million under an adverse scenario (including the effect of new deferred tax assets). As a result, several measures were taken aimed at ensuring the capital adequacy of NLB and the NLB Group, including:

- the termination of all qualified liabilities by way of a bail-in (the "**Bail-In**");
- the reduction of NLB's share capital to zero in accordance with the Bail-In and a simultaneous increase of NLB's share capital to EUR 200 million in relation to which the Republic of Slovenia paid EUR 1,551 million into the capital of NLB (the "**Recapitalisation**"); and
- the transfer of certain of NLB's assets and/or exposures to the Bank Assets Management Company ("**BAMC**") to help strengthen the bank's stability as contemplated by the ZUKSB.

The measures listed under the first two bullet points above were implemented on the basis of a decision of the Bank of Slovenia made on 17 December 2013 (the "**Bank of Slovenia Decision**"). Given the participation of the Republic of Slovenia in the Recapitalisation and the state aid element of the transfer of assets to the BAMC, EC consent was also required. This consent was obtained in the EC decision SA.33229 (2012/C) — (ex 2011/N) — Restructuring of NLB — Slovenia which Slovenia is planning to implement for Nova Ljubljanska banka d.d. of 18 December 2013 on State Aid (the "**EC Decision**").

### **The European Commission's decision on state aid and Final EC Decision**

As referred to above, in December 2013, the EC issued the EC Decision allowing NLB to benefit from state aid, approving the submitted Restructuring Plan and requiring the Republic of Slovenia and NLB to implement all measures indicated in the EC Decision and the applicable commitments towards the EC (the "**Commitments**"), as subsequently amended on 11 May 2017. These Commitments mainly related to (i) improving corporate governance, (ii) improving risk management, (iii) divestment and NLB's gradual withdrawal from non-core activities, markets and investments, (iv) reduction of operating costs of the NLB Group, and (v) other behavioural commitments. The Commitments also included a reduction of the shareholding in NLB by at least 50 per cent. by 31 December 2017 and to 25 per cent. plus one share by 31 December 2018. The Republic of Slovenia failed to comply with this requirement and proposed an amendment of the Commitments to the EC. On 26 January 2018, the EC issued a document titled "SA.33229 (2018/C) (ex 2017/N-3) – Slovenia – Amendment of the restructuring commitments of Nova Ljubljanska banka d.d.", by which it invited interested parties to submit their comments on the restructuring commitments of the EC Decision pursuant to and beginning the procedure set in Article 108(2) of the TFEU. Further to this procedure, the Republic of Slovenia proposed an amendment to the Commitments to the EC on 13 July 2018, and the EC approved this by the decision SA.33229 (2018/N-4) (ex 2017/C-3) – Slovenia – Amendment of the restructuring commitments of Nova Ljubljanska banka d.d. of 10 August 2018 (the "**Final EC Decision**" and such newly approved commitments "**New Commitments**"). The New Commitments established that the Commitments ceased to apply on 31 December 2017. Different time limits are set for the fulfilment of different obligations under the New Commitments, and the last possible deadline for the fulfilment of or compliance with a particular obligation expires on 31 December 2019 (except if the shareholding of the Republic of Slovenia in NLB is not reduced to 25 per cent. plus one share by that date, in which case the last such deadline expires when the shareholding of the Republic of Slovenia in NLB is reduced to 25 per cent. plus one share).

NLB and the Republic of Slovenia are required to implement all measures indicated in the Final EC Decision and the New Commitments, on which the Final EC Decision is based in part. In this context,

KPMG was appointed as a monitoring trustee to supervise the implementation of all measures and report to the EC.

After successful completion of the NLB privatisation process in November 2018 and June 2019, only a few of the New Commitments listed below remain in effect:

- NLB will have to divest NLB Vita, življenska zavarovalnica d.d., Ljubljana by the end of 2019;
- By the end of 2019 the Republic of Slovenia undertakes to:
  - allocate all seats and voting rights in the Supervisory Board of NLB and its committees to independent experts;
  - ensure that each state-owned bank remains an independent economic unit with independent powers;
  - ensure that Slovenian state-owned enterprises are not treated more favourably than non-state enterprises; and
  - ensure that NLB will not acquire a participation in any company (the "**Acquisition Ban**"); and
- To appoint a suitably qualified monitoring trustee to continuously and thoroughly monitor the complete and correct implementation of the New Commitments.

Save for the commitment to divest NLB Vita, življenska zavarovalnica d.d., Ljubljana, which is ongoing, all of the above commitments have been fulfilled. The Acquisition Ban will apply and should be complied with until 31 December 2019.

#### **Termination of Qualified Liabilities and Bail-In**

Pursuant to the Bank of Slovenia Decision, all of the qualified liabilities arising from the following of NLB instruments ("**Qualified Liabilities**") were terminated on 18 December 2013:

- NLB's share capital in the amount of EUR 184.1 million (22,056,378 shares) which was reduced to zero under the Bank of Slovenia Decision; and
- hybrid and subordinated financial liabilities totalling EUR 250 million and respective accrued interests.

The Bail-In qualified as a reorganisation measure under the European Parliament and Council Directive 2001/24/EC and, as such, in accordance with the legislation of the Republic of Slovenia and throughout the European Community, it became fully effective on 18 December 2013, without any further formalities, and such effects are to be recognised, including as against third parties in other EU member states, even where the rules of the host EU member state applicable to them do not provide for such measures or make their implementation subject to conditions which are not fulfilled. Pursuant to the Bail-In, NLB's liabilities arising from the above-mentioned instruments were fully terminated in terms of payment of both the principal and the accrued interest. This had a positive effect for NLB as one-off income (before tax) in the amount of EUR 257.6 million in 2013.

#### **Increase in NLB's capital and relationship with the Republic of Slovenia**

In order to address NLB's capital adequacy, the Bank of Slovenia Decision in 2013 also provided for an increase of NLB's share capital to EUR 200 million through the issue of 20,000,000 new, ordinary, no-par value shares with a corresponding amount of EUR 10.0 per share.

The Republic of Slovenia subscribed for the new shares at a price of EUR 77.55 per share, for a total aggregate amount of EUR 1,551 million. The new shares were paid up in full by the Republic of Slovenia through a cash contribution in the amount of EUR 1,141 million and a contribution in kind in the form of the Republic of Slovenia's bonds, which were valued at EUR 410.0 million as at 9 December 2013. The capital increase was completed on 18 December 2013.

## **The transfer of assets to the BAMC**

In parallel with the implementation of the aforementioned measures, NLB signed an asset transfer agreement with the BAMC in December 2013.

The assets transferred to the BAMC pursuant to this agreement consisted of 1,427 credit receivables, as well as investments in equity shares received as the result of repossessions of certain collateral. The credit receivables transferred, which met the conditions set out in ZUKSB related to 283 debtors, with an aggregate gross book value of EUR 2,169 million (and an aggregate net book value of EUR 1,155.3 million).

The transfer value of the credit receivables calculated according to EC methodology and approved by the EC in line with ZUKSB was EUR 609.6 million, which resulted in a loss from the transfer of assets amounting to EUR 542.9 million with an aid element of EUR 130 million. This aid element was an asset relief measure calculated upon the difference between the transfer price of the assets and the market price.

In addition to these credit receivables, four equity stakes were transferred in 2013. The loss upon the transfer of these equity stakes amounted to EUR 2.16 million.

NLB received payment for the transferred assets in December 2013 in the form of bonds issued by the BAMC (and guaranteed by the Republic of Slovenia). The bonds constitute ECB-eligible collateral in open market operations and were intended to serve as refinancing instruments for NLB.

## **COMPETITION FACING THE GROUP**

The NLB Group is the largest banking and financial group in the Republic of Slovenia and the largest banking and financial group in the remainder of SEE<sup>2</sup>, with headquarters in and an exclusive focus on these markets. NLB classifies its competitors in the Republic of Slovenia into three categories: domestic banks, foreign banks and investment banking and brokerage firms. In the financial services market, NLB faces competition from domestic banks and subsidiaries of foreign banks such as NKBM, Abanka, SKB Banka, UniCredit Banka Slovenija, Addiko Bank (formerly Hypo Alpe-Adria Bank), Gorenjska banka and major regional banks such as Intesa Sanpaolo Bank (formerly Banka Koper).

Since the Republic of Slovenia entered the EU, the presence of foreign banks has increased considerably in both corporate and retail banking. For specialised services, such as investment banking, NLB's competitors are specialised companies, in particular stock brokerage companies.

## **STRATEGY**

In September 2019, the NLB Group approved the key elements of its new, comprehensive five-year strategy. The scope of a new strategy, new vision and mission statements were defined, as set out below:

### **New vision:**

- together we will meet the financial needs of our clients and impact the quality of life in our region;
- by 2025 the NLB Group will be a systemic provider of client relevant financial services in all target markets; and
- we will improve quality of life in our home region.

### **New mission:**

- Because we love our home, we strive to improve and develop it together for present and future generations.
- We are from this region, therefore, we understand its business environment, customs and, most of all, its people.

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<sup>2</sup> Source: Data of the Bank of Slovenia

- With our commitment, knowledge and innovative solutions, we take care of our customers with the aim of creating a better life and a better future for us all.
- Welcome to our home.

NLB is striving to protect and strengthen its market position as a systemic player in its home region and actively participate in the growth and consolidation of the market. In retail banking, NLB is striving to increase its proximity to clients through anchor products and by offering a more convenient, personalised lifestyle through digital services (e.g. omni-channel, marketplace). In corporate banking, NLB is looking to cover more complex, cross-border needs of clients and find entry points to serving entire value chains.

NLB would like to strengthen its core activities and increase profitability through the development of a more customer centric approach. Additionally, the Bank is hoping to accelerate growth through entering or expanding its presence in selected markets, (for example, leasing, bancassurance) and diversify its services on a horizontal level. Simultaneously, NLB aims to retain the ability to respond to unforeseen opportunities.

The Bank's main ambition is to reach the mid-term targets set for NLB Group that were communicated in the IPO process (November 2018) and are regularly published in financial reports of NLB Group, despite deteriorating market conditions.

The key priorities of the Group's strategy:

- include a focus on the long-term strategic direction of the Group (all options are considered, e.g. M&A);
- covers all key aspects of Group operations (e.g. HR, IT, marketing, distribution and digital); and
- applies a group perspective for all strategic projects and initiatives.

### Medium-Term Strategic and Financial Targets

Following the successful restructuring and privatisation and with a return to profitability, key restrictions set by EC commitments were eliminated. While the market growth projections have recently experienced significant slow-down (or even downturn), new challenges and opportunities have emerged. The Bank's new, updated NLB Group strategy aims to identify, detail and operationalise the future path for the entire NLB Group to 2025. A top down, strategic plan was developed, taking into consideration foreseeable market developments, with the ambition to meet the Group's medium-term financial targets.

The following table shows the medium-term targets published in the NLB Group Interim Report H1 2019 and actual data on performance as at 30 June 2018 and 30 June 2019.

|  | As at 30 June |       | Medium-Term Targets |
|--|---------------|-------|---------------------|
|  | 2018          | 2019  |                     |
| Net interest margin.....                     | 2.53%         | 2.54% | > 2.7%              |
| Loan to deposit ratio ("LTD").....           | 70.5%         | 67.7% | < 95.0%             |
| Total capital ratio .....                    | 18.7%         | 16.5% | 16.25%*             |
| Costs to income ratio ("CIR").....           | 57.6%         | 54.9% | ~ 50.0%             |
| Cost of risk net (bps).....                  | -46           | 0     | < 90                |
| Non-performing exposure ratio ("NPE %")..... | 5.8%          | 4.1%  | < 4.0%              |
| Return on equity after tax (ROE a.t.).....   | 12.1%         | 11.4% | > 12.0%             |
| Dividend payout ratio                        | /             | /     | ~ 70.0%**           |

\* Target total capital ratio is regularly revised by the competent bodies to reflect each time the applicable capital requirements.

\*\* Payment of dividends by NLB, will depend on NLB's capital structure, risk appetite, profits, financial condition, regulatory requirements, general economic and business conditions, and future prospects.

These medium-term targets are comprised of alternative performance measures (as defined in the ESMA Guidelines on Alternative Performance Measures). (See the section entitled - "Alternative Performance Measures" on page 89 of this Offering Circular where these alternative performance measures are defined).

These medium-term targets are simply targets and are not profit forecasts or guarantees of future financial performance. None of the NLB independent auditor, nor any other independent accountants, have applied,

examined or performed any procedures with respect to the abovementioned targets, nor have they expressed any opinion or any other form of assurance on the such targets or their achievability. These targets constitute forward looking-statements (See the section entitled - "*Forward-Looking Statements*" on page vii of this Offering Circular).

While presented with numerical specificity above, these financial targets are based upon a number of assumptions (including the success of NLB's business strategy), estimates, regulatory, financial conditions and projections regarding NLB's future business and the environment in which NLB expects to operate, which are inherently subject to significant business, operational, economic and other risks, many of which are outside NLB's control. None of NLB, the NLB Supervisory or Management Board members, senior management or any of their respective affiliates, advisers, officers, directors or representatives can give any assurance that the targets will be realised or that actual results will not vary significantly from the targets.

## KEY FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2019 and for the year ended 31 December 2018, the NLB Group generated a profit attributable to owners of the parent in the amount of EUR 94.3 million and EUR 203.6 million after tax respectively, while the total assets amounted to EUR 13,164 million and EUR 12,740 million respectively.

The following table shows the financial highlights of the NLB Group (on a consolidated basis) and of NLB (stand-alone) for the years ended 31 December 2017 and 2018.

|   | NLB Group                     |         | NLB     |         |
|---|-------------------------------|---------|---------|---------|
|   | Year ended 31 December        |         |         |         |
|   | 2017                          | 2018    | 2017    | 2018    |
|   | <i>(in millions of Euros)</i> |         |         |         |
| <b>Key income statement figures</b>                   |                               |         |         |         |
| Net interest income .....                             | 309.3                         | 312.9   | 158.8   | 158.0   |
| Net non-interest income .....                         | 178.4                         | 180.4   | 171.3   | 165.4   |
| Total costs .....                                     | (284.7)                       | (288.7) | (175.9) | (179.0) |
| Result after income tax.....                          | 225.1                         | 203.6   | 189.1   | 165.3   |
| <b>Key financial position statement figures</b>       |                               |         |         |         |
| Total assets.....                                     | 12,238                        | 12,740  | 8,713   | 8,811   |
| Loans and advances to non-banking sector (gross)..... | 7,641                         | 7,627   | 4,987   | 4,704   |
| Deposits from non-banking sector.....                 | 9,879                         | 10,464  | 6,812   | 7,033   |
| <b>Key performance figures</b>                        |                               |         |         |         |
| Return on equity after tax .....                      | 14.4                          | 11.8    | 14.4    | 11.6    |
| Cost income ratio .....                               | 58.4                          | 58.5    | 53.3    | 55.3    |

The following table shows the financial highlights of the NLB Group and NLB for the six months ended 30 June 2018 and six months ended 30 June 2019.

|  | <b>NLB Group</b>                              |             |
|--|---|-------------|
|  | <b>As at and for six months ended 30 June</b> |             |
|  | <b>2019</b>                                   | <b>2018</b> |
|  | <i>(in millions of Euros)</i>                 |             |
| <b>Key income statement figures</b>                    |   |             |
| Net interest income .....                              | 159.0   | 151.7       |
| Net non-interest income .....                          | 98.3  | 91.4        |
| Total costs .....                                      | (141.4)                                       | (140.0)     |
| Result after income tax .....                          | 94.3  | 104.8       |
| <b>Key financial position statement figures</b>        |   |             |
| Total assets .....                                     | 13,164  | 12,516      |
| Loans and advances to non-banking sector (gross) ..... | 7,721   | 7,612       |
| Deposits from non-banking sector .....                 | 10,754  | 10,018      |
| <b>Key performance figures</b>                         | <i>(in per cent.)</i>                         |             |
| Return on equity after tax .....                       | 11.4  | 12.1        |
| Cost income ratio .....                                | 54.9  | 57.6        |

The following table shows the contribution to NLB Group's revenues and total assets by region as at and for the years ended 31 December 2017 and 2018.

|                             | <b>Contribution to NLB Group's revenues by region</b> |              | <b>Contribution to NLB Group's total assets by region</b> |                 |
|-----------------------------|---|--------------|---|-----------------|
|                             | <b>Year ended 31 December</b>                         |              | <b>As at 31 December</b>                                  |                 |
|                             | <b>2017</b>   | <b>2018</b>  | <b>2017</b>   | <b>2018</b>     |
|                             | <i>(in millions of Euros)</i>                         |              | <i>(in millions of Euros)</i>                             |                 |
| Slovenia .....              | 328.1   | 327.6        | 8,293.4   | 8,373.9         |
| South-Eastern Europe* ..... | 243.2   | 249.3        | 3,913.0   | 4,346.3         |
| Western Europe** .....      | 0.5   | 0.6          | 31.1  | 19.6            |
| Czech Republic .....        | 0.002   | -            | 0.2   | 0.2             |
| <b>Total</b> .....          | <b>571.8</b>  | <b>577.5</b> | <b>12,237.7</b>   | <b>12,740.0</b> |

\* Macedonia, Serbia, Montenegro, Croatia, Bosnia and Herzegovina and Kosovo.

\*\* Germany and Switzerland.

The following table shows the contribution to the NLB Group's revenues and total assets by region as at and for the six months ended 30 June 2018 and six months ended 30 June 2019.

|                             | <b>Contribution to the NLB Group's revenues by region</b> |              | <b>Contribution to the NLB Group's total assets by region</b> |                 |
|-----------------------------|---|--------------|---|-----------------|
|                             | <b>Six months ended 30 June</b>                           |              | <b>As at 30 June</b>  |                 |
|                             | <b>2018</b>   | <b>2019</b>  | <b>2018</b>   | <b>2019</b>     |
|                             | <i>(in millions of Euros)</i>                             |              | <i>(in millions of Euros)</i>                                 |                 |
| Slovenia .....              | 161.0   | 164.1        | 8,450.7   | 8,648.9         |
| South-Eastern Europe* ..... | 119.9   | 128.9        | 4,038.5   | 4,497.3         |
| Western Europe** .....      | 0.3   | 0.3          | 26.8  | 18.2            |
| Czech Republic .....        | -   | -            | 0.2   | -               |
| <b>Total</b> .....          | <b>281.2</b>  | <b>293.3</b> | <b>12,516.2</b>   | <b>13,164.4</b> |

\* Macedonia, Serbia, Montenegro, Croatia, Bosnia and Herzegovina and Kosovo.

\*\* Germany and Switzerland.

## ACTIVITIES

The NLB Group is the largest banking and financial group in the Republic of Slovenia with an exclusive strategic focus on selected markets in SEE<sup>3</sup>. The NLB Group is principally involved in retail banking and corporate banking, offering a comprehensive range of competitive products and services.

<sup>3</sup> Source: Data of the Bank of Slovenia

The NLB Group provides universal banking services to retail and corporate clients, and additionally asset management and bancassurance products.

NLB is a universal bank whose objects are to provide banking and other financial services, as authorised by the Bank of Slovenia, as well as to perform other business operations in accordance with applicable regulations. NLB may perform business operations in the Republic of Slovenia and abroad. NLB's segments are defined in accordance with NLB's long-term strategy and divided into two major categories: core and non-core.

Until 31 December 2018 the segmentation was as follows:

- **Retail Banking in Slovenia**, which includes banking with individuals and asset management, as well as the results of the jointly-controlled company NLB Vita and the associated company Bankart;
- **Corporate Banking in Slovenia**, which includes banking with large (key), medium-sized, micro, and small companies. The results of operations with healthy companies (Sales), companies in restructuring, or defaulters (restructuring and work-out) are monitored separately within the segment;
- **Financial Markets in Slovenia** include treasury activities and trading in financial instruments, and also present the results of asset and liabilities management. Investment banking as a part of Financial markets in Slovenia that includes brokerage, custody of securities, as well as financial consulting, is represented as a separate segment within Corporate banking in Slovenia;
- **Strategic Foreign Markets**, which include the operations of strategic Group companies on strategic markets (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, and Serbia).
- **Non-Core Markets and Activities** includes the operations of non-core Group members and the non-core part of the portfolio of the Bank.
- **Other activities ('Other')** includes the categories whose operating results cannot be allocated to individual segments and include the costs of restructuring, and the expenses from vacant business premises.

As of 1 January 2019 NLB's business comprised of the following core and non-core segments:

**Core segments:**

- **Retail Banking in Slovenia**, which includes banking with individuals and asset management, as well as the results of the jointly controlled company NLB Vita and the associated company Bankart.
- **Corporate and Investment Banking in Slovenia**, which includes banking with key corporate clients, SMEs, investment banking and custody, and restructuring and work-out.
- **Financial Markets in Slovenia** include treasury activities and trading in financial instruments, while it also presents the results of asset and liabilities management.
- **Strategic Foreign Markets**, which include the operations of strategic Group banks in strategic markets (Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia, and Serbia).
- **Other accounts** for the categories whose operating results cannot be allocated to specific segments, such as external realisation, rents and impairments on real estate, restructuring costs, income and tax.

**Non-Core segment:**

- **Non-Core Members** includes the operations of non-core Group members according to the EC commitments, REAM entities and NLB Srbija and NLB Crna Gora, special purpose vehicles

("SPVs") established for non-performing loans from banks in Serbia and Montenegro, respectively.

As of 1 January 2019 onwards, certain changes to the reporting of business segments were applied, following the completion of the Bank's restructuring process imposed by the EC and also reflecting the strategic streamlining of business operations within the corporate segment as follows:

- Results from investment banking and custody services were transferred from Financial Markets in Slovenia to an enlarged Corporate and Investment Banking in Slovenia.
- Micro clients in Slovenia were transferred from Corporate and Investment Banking in Slovenia to Retail Banking in Slovenia.
- Corporate exposures previously reported in Non-Core Markets and Activities were transferred to Corporate and Investment Banking in Slovenia given that special reporting requirements from EC commitments ceased to apply. The remaining segment was renamed Non-Core Members and contains non-core subsidiaries mostly in liquidation.
- Further, the SPVs established for non-performing loans from banks in Serbia and Montenegro, NLB Srbija and NLB Crna Gora, have been transferred from the Strategic Foreign Markets to Non-Core Members.

Due to this new methodology, the segment results for 2019 are not directly comparable to the segment results from the previous year. The table below presents the estimated effects due to the segment changes for the full year 2018.

The following table shows the estimated effects of the segment methodology changes for 2018 and relates to comparison of data for the six months ended 30 June 2018 with data for the six months ended 30 June 2019.

|                                  | <b>Retail<br/>Banking in<br/>Slovenia</b> | <b>Corporate<br/>and<br/>Investment<br/>Banking in<br/>Slovenia</b> | <b>Strategic<br/>Foreign<br/>Markets</b> | <b>Financial<br/>Markets in<br/>Slovenia</b> | <b>Non-core<br/>Members</b> | <b>Other</b> |
|----------------------------------|---|---|--|--|-----------------------------|--------------|
|                                  | <i>(in millions of Euros)</i>             |   |  |  |                             |              |
| Net interest income .....        | 3.1                                       | 1.8   | 0.5                                      | (0.3)  | (5.1)                       |              |
| Net non-interest income .....    | 4.6                                       | 2.3   | (1.8)                                    | (8.2)  | 3.2                         |              |
| Total costs* .....               | (6.1)                                     | (4.4)   | 1.4                                      | 6.1  | 3.0                         | No effects   |
| Impairments and provisions ..... | (0.9)                                     | 6.6   | 1.4                                      | 0.0  | (7.1)                       |              |
| Results before tax .....         | 0.7                                       | 6.3   | 1.5                                      | (2.4)  | (6.1)                       |              |
| Total assets .....               | 37.1                                      | (9.5)   | (43.5)                                   | 47.9   | (32.1)                      |              |
| Gross loans to costumers .....   | 38.1                                      | 111.8   | (69.0)                                   | (0.1)  | (80.8)                      | No effects   |
| Deposits from costumers .....    | 188.1                                     | (107.6)   | 0.0                                      | (71.0)                                       | (9.6)                       |              |

\* negative value=increase, positive value=decrease

The table below sets out the contribution of each operating segment to the NLB Group's loss/profit before tax and total net operating income, derived from its consolidated financial statements for the year ended 31 December 2017 and 31 December 2018.

|                                       | <b>NLB Group's loss/profit<br/>before income tax for the<br/>year by activity</b> |              | <b>NLB Group's total net<br/>operating income</b> |              |
|---------------------------------------|---|--------------|---|--------------|
|                                       | <b>Year ended 31 December</b>   |              |   |              |
|                                       | <b>2017</b>   | <b>2018</b>  | <b>2017</b>                                       | <b>2018</b>  |
|                                       | <i>(in millions of Euros)</i>   |              |   |              |
| Corporate banking (Slovenia) .....    | 52.8  | 60.4         | 73.9  | 76.7         |
| Retail banking (Slovenia) .....       | 41.7  | 40.9         | 140.6   | 146.4        |
| Financial markets (Slovenia) .....    | 27.3  | 26.5         | 39.8  | 38.8         |
| Strategic Foreign Markets .....       | 102.0   | 99.7         | 191.7   | 214.0        |
| Non-Core Markets and Activities ..... | 31.2  | 8.2          | 40.0  | 14.5         |
| Other activities .....                | (17.7)  | (2.3)        | 4.3   | 4.8          |
| <b>Total .....</b>                    | <b>237.3</b>  | <b>233.3</b> | <b>490.2</b>                                      | <b>495.3</b> |

The table below sets out the contribution of each operating segment to the NLB Group's loss/profit before tax and total net operating income, derived from its consolidated financial statements for the six months ended 30 June 2018 and six months ended 30 June 2019.

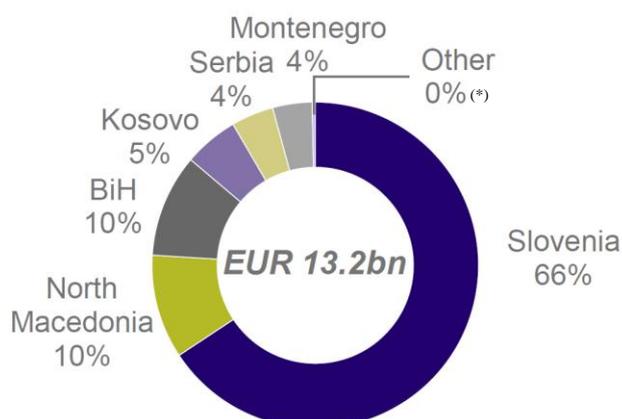
|   | NLB Group's loss/profit<br>before income tax for the<br>year by activity |              | NLB Group's total net<br>operating income |              |
|---|--|--------------|---|--------------|
|   | Six months ended 30 June   |              |   |              |
|   | 2018   | 2019         | 2018                                      | 2019         |
|   | <i>(in millions of Euros)</i>  |              |   |              |
| Corporate banking (Slovenia)* .....     | 24.5   | 26.2         | 36.0                                      | 44.2         |
| Retail banking (Slovenia).....          | 16.7   | 24.9         | 67.5                                      | 79.3         |
| Financial markets (Slovenia).....       | 15.3   | 13.4         | 21.6                                      | 17.4         |
| Strategic Foreign Markets .....         | 58.6   | 43.4         | 109.2                                     | 101.6        |
| Non-Core Markets and Activities** ..... | 8.0  | 0.4          | 9.6                                       | 5.9          |
| Other activities .....                  | (3.0)  | 4.7          | 0.1                                       | 9.7          |
| <b>Total</b> .....                      | <b>120.0</b>   | <b>113.0</b> | <b>244.0</b>                              | <b>258.1</b> |

The NLB Group has a banking presence across SEE. The following table sets out the NLB Group member banks by total assets (before intercompany elimination adjustments) and market share (based on data provided by the central banks of individual countries) in local markets as at 30 June 2019.

| NLB Group member            | Total assets<br><i>(in millions of<br/>Euros)</i> | Market share by total assets in<br>local markets |                                       |
|-----------------------------|---|--|---------------------------------------|
|                             |   | Local market                                     | <i>(in per<br/>cent.)<sup>4</sup></i> |
| NLB d.d., Ljubljana .....   | 9,143   | Slovenia   | 22.8                                  |
| NLB Banka, Skopje .....     | 1,363   | North Macedonia                                  | 16.0                                  |
|                             |   | BiH-Republika                                    |                                       |
| NLB Banka, Banja Luka ..... | 760   | Srpska   | 18.8                                  |
| NLB Banka, Podgorica .....  | 514   | Montenegro                                       | 11.9                                  |
| NLB Banka, Prishtina .....  | 711   | Kosovo   | 17.3                                  |
| NLB Banka, Sarajevo.....    | 613   | BiH-Federation                                   | 5.2                                   |
| NLB Banka, Belgrade .....   | 527   | Serbia   | 1.6                                   |

<sup>4</sup> Source: Data of the Bank of Slovenia, the National Bank of the Republic of North Macedonia, the Central Bank of Montenegro, the Central Bank of Kosovo, the Central Bank of Bosnia and Herzegovina and the National Bank of Serbia.

The following figure sets out the composition of NLB Group total assets by country as at 30 June 2019:



(\*) Other amounts to 0.3%

### Retail banking in Slovenia

The retail banking segment in the Republic of Slovenia is key to the NLB Group's operations. NLB has a strong and established position in the Slovenian retail banking market, with approximately 23.1 per cent. and 30.2 per cent. market share in retail loans and deposits as at 30 June 2019, respectively<sup>5</sup>. NLB offers its products and services via multi-channel distribution, including through its physical network of 93 branches as at 30 June 2019 as well as through its digital channels and the only 24/7 contact centre with chat and video chat functionality via online and mobile channels in the country. In the six months ended 30 June 2019 and the year ended 31 December 2018, profit-before-tax generated in this segment reached EUR 24.9 million and EUR 40.9 million, respectively, and segment assets were EUR 2.4 billion and EUR 2.3 billion, respectively.

The following table shows the performance of the NLB Group's retail banking segment in Slovenia for the six months ended 30 June 2018, six months ended 30 June 2019, year ended 31 December 2017 and year ended 31 December 2018.

|   | As at and for the six months ended 30 June |             | As at and for year ended 31 December |              |
|---|--|-------------|--------------------------------------|--------------|
|   | 2018                                       | 2019        | 2017                                 | 2018         |
|   | <i>(In millions of Euros)</i>              |             |                                      |              |
| Net interest income .....   | 36.6                                       | 44.1        | 72.8                                 | 79.3         |
| Net non-interest income .....   | 31.0                                       | 35.2        | 67.8                                 | 67.1         |
| <b>Total net operating income</b> .....   | <b>67.5</b>                                | <b>79.3</b> | <b>140.6</b>                         | <b>146.4</b> |
| Total costs .....   | (51.2)                                     | (55.2)      | (100.8)                              | (107.3)      |
| <b>Result before impairments and provisions</b> .....                           | <b>16.4</b>                                | <b>24.2</b> | <b>39.8</b>                          | <b>39.1</b>  |
| Impairments and provisions .....  | (2.2)                                      | (1.8)       | (2.9)                                | (3.7)        |
| Net gains from investments in subsidiaries, associates, and joint ventures..... | 2.5  | 2.5         | 4.8                                  | 5.4          |
| <b>Result before tax</b> .....  | <b>16.7</b>                                | <b>24.9</b> | <b>41.7</b>                          | <b>40.9</b>  |
| Reportable segment assets.....  | 2,265.3                                    | 2,420.4     | 2,204.0                              | 2,347.2      |
| Investments in associates, and joint ventures                                   | 42.3                                       | 42.3        | 43.8                                 | 37.1         |
| Reportable segment liabilities .....  | 5,666.5                                    | 6,218.2     | 5,542.8                              | 5,821.3      |

NLB provides a range of banking products and services to its retail customers in Slovenia, offering current accounts (the Bank had 697,708 personal account holders as at 30 June 2019, equivalent to 33.5 per cent. of Slovenia's population) and other deposit accounts (including savings accounts), together with related debit cards and credit cards for access to domestic and international ATM networks, overdraft facilities, mortgage and housing loans, personal loans, payment services and foreign exchange services. The NLB

<sup>5</sup> Source: Data of the Bank of Slovenia, NLB's calculation.

Group also provides other retail financial services in Slovenia, including asset management and life and non-life insurance. Particular attention is being given to offering simple and easy ways to access banking products and services available 24/7.

In 2019, the Bank upgraded its range of retail products and services and enhanced customer experience, as summarised below.

- **NLB Pay mobile wallet.** Users can pay at point of sale terminals with digitised Maestro, Mastercard and Visa cards, and withdraw cash from contactless automated teller machines ("ATMs") in and outside Slovenia. They can also use contactless ATMs to check their account balance on Maestro or Mastercard cards. The last upgrade of the application ensures even greater user experience from a security point of view (the ability to lock/unlock a card, disable ATM withdrawals and make online payments and payments from abroad), and thus present equal functionalities which are already offered by competitive foreign card issuers.
- **Packages for individual clients.** Most clients already have the packages for individual clients, providing them with transparent, modern and simple daily banking services.
- **E-statements.** The Bank strongly encourages clients to use paperless solutions. While in the past, e-statements were offered only to NLB Klik users, they have been available to all clients free of charge since Q1 2019.
- **Mobile Klikin.** The mobile bank Klikin continues to be upgraded and is thus quickly becoming a preferred way to conduct banking business with the Bank. NLB is still the only bank in the Republic of Slovenia to offer video call service 24/7, which it has done for two years.
- **Refurbishment of branches.** In addition to intensive digitalisation efforts, the branch offices are being refurbished to enhance customers' experience. In the six months ended 30 June 2019, the Bank finished the refurbishment of five branches, while 53 branches (from a total of 93) have been modernised since the implementation of the open space concept enabling more client friendly approach. In addition and further to the NLB Group's strategy, unprofitable branches are being closed.

### **Card operations**

As at 30 June 2019, the Bank's card market share according to the Bank of Slovenia represents 27.7 per cent. of the Slovenian market. Individuals' debit and credit cards volumes of payment transactions represented a total of EUR 1,084 million, and cash withdrawals in the total of EUR 1,242 million.

The Bank was the first on the Slovenian market to offer contactless ATMs to clients (299 ATMs as at 30 June 2019). As contactless functionality has improved, contactless ATMs have become more secure.

NLB's card operations focus is to improve its competitive position, following developments in technology, and to increase usage.

### **Electronic banking**

In general, NLB is shifting the focus in its development activities from a product-oriented approach towards integrated user-friendly solutions embedded in the lifecycle of retail and corporate customers. In future, NLB aims to develop new ways of interacting with its client base in an evolving 'omnichannel' environment, allowing it to explore new ways of originating and servicing new business opportunities beyond established channels. E-solutions such as NLB Pay mobile wallet, mobile bank Klikin and online bank NLB Klik have already been introduced to the market.

### **Life insurance business**

The NLB Group provides life insurance services. NLB Vita d.d., Ljubljana ("**NLB Vita**"), which is 50 per cent. owned by NLB Group and 50 per cent. owned by the KBC Group. NLB Vita offers life insurance products tailored to fit the particular needs of individuals in specific life situations, which are sold exclusively through the NLB banking network. NLB Vita offers a number of life insurance products, including pure risk insurance products, insurance products with an investment component (pure unit-link or partial guarantee), and accident and health insurance products including those that cover assistance when

travelling abroad. According to the Slovenian Insurance Association, as at 30 June 2019, NLB Vita had a 16 per cent. share of the Slovenian life insurance market (excluding pension companies). In the six months ended 30 June 2019 NLB Vita charged EUR 42.4 million in gross written premium, of which EUR 40.5 million was in life insurance.

The investments of NLB Vita's long-term life insurance business fund principally consist of EUR denominated government and corporate fixed income financial instruments with investment grades. As at 30 June 2019, NLB Vita's capital was above the capital required by applicable regulation. The ratio of eligible own funds to solvency capital ratio (SCR) stood at 190 per cent., while the ratio of eligible own funds to minimum capital ratio (MCR) was 783 per cent.

As the result of additional commitments given to the EC, on 20 August 2019 the Bank announced that both owners of the NLB Vita insurance company (NLB and KBC Insurance NV), are currently investigating the possibility of a joint process to divest their shareholdings in NLB Vita (for further details see – "*Recent Developments*").

### ***Asset and fund management***

NLB Skladi d.o.o., Ljubljana ("**NLB Skladi**") is the asset and fund management company of the NLB Group, with its products exclusively distributed by NLB. The NLB Group's model for linking banking and asset management services plays a key role within the NLB Group's retail segment. NLB Skladi is a wholly owned subsidiary of NLB and has operated in the asset management sector since 2004.

The company is one of the leading providers of investment fund management services in the Republic of Slovenia. According to the Slovenian Investment Fund Association, its market share was 32.9 per cent. as at 30 June 2019. The company continues to be ranked first in the Republic of Slovenia according to the amount of net-inflows with EUR 34.5 million in the six months ended 30 June 2019. The company remained the largest asset management company and the largest mutual funds management company in Slovenia. (Securities Market Agency and ZDU-GIZ (Slovenian Investment Fund Association)). As at 30 June 2019, total assets under management were EUR 1,381.4 million, of which EUR 909.6 million were in mutual funds and EUR 471.8 million in the discretionary portfolio.

In addition to mutual funds, NLB Skladi offers adjustable savings plans, competitive commission rates and costs, management in line with international standards, transparent investment policies and investment services to other members of the NLB network.

### **Corporate and Investment Banking in Slovenia**

The corporate banking segment in the Republic of Slovenia includes banking with key corporate clients, SMEs, investment banking and custody and restructuring and work-out. As at 30 June 2019, the corporate and investment banking segment in total represented more than 9 thousand business clients. With a 17.2 per cent. and 14.4 per cent. market share in total corporate loans and deposits, respectively, as at 30 June 2019<sup>6</sup>, NLB is a leading bank in the Slovenian corporate banking market. NLB offers its products and services by focusing on relationship-based banking via business centres across the country and through its digital channels. After it was confirmed in August 2018 that the Commitments relating to cross-border financing ceased to apply on 31 December 2017, the Bank has actively started to exploit business opportunities in the SEE (see below – "*International Desk*") to offer a complete range of services as a leading regional bank and the strength of the NLB Group balance sheet available for financing. In the six months ended 30 June 2019 and the year ended 31 December 2018, profit-before-tax generated in this segment reached EUR 26.2 million and EUR 60.4 million, respectively, and as at 30 June 2019 and 31 December 2018 segment assets were EUR 2.0 billion and EUR 2.0 billion, respectively.

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<sup>6</sup> Source: Data of Bank of Slovenia. NLB's calculation.

The following table shows the performance of the NLB Group's corporate and investment banking segment in Slovenia for the six months ended 30 June 2018, six months ended 30 June 2019, year ended 31 December 2017 and year ended 31 December 2018.

|   | As at and for the six months ended 30 June |             | As at and for the year ended 31 December |             |
|---|--|-------------|--|-------------|
|   | 2018                                       | 2019        | 2017                                     | 2018        |
|   | <i>(in millions of Euros)</i>              |             |  |             |
| Net interest income .....                             | 20.2                                       | 19.7        | 42.9                                     | 42.5        |
| Net non-interest income .....                         | 15.8                                       | 24.5        | 31.0                                     | 34.1        |
| <b>Total net operating income</b> .....               | <b>36.0</b>                                | <b>44.2</b> | <b>73.9</b>                              | <b>76.7</b> |
| Total costs .....                                     | (21.4)                                     | (20.8)      | (43.6)                                   | (43.0)      |
| <b>Result before impairments and provisions</b> ..... | <b>14.6</b>                                | <b>23.3</b> | <b>30.3</b>                              | <b>33.7</b> |
| Impairments and provisions .....                      | 10.0                                       | 2.9         | 22.5                                     | 26.6        |
| <b>Result before tax</b> .....                        | <b>24.5</b>                                | <b>26.2</b> | <b>52.8</b>                              | <b>60.4</b> |
| Segment assets .....                                  | 2,018.8                                    | 1,950.2     | 2,055.7                                  | 1,975.8     |
| Segment liabilities .....                             | 1,127.1                                    | 1,046.8     | 1,122.7                                  | 1,157.4     |

The NLB Group provides comprehensive corporate financial services in the Republic of Slovenia and abroad to its corporate customers. Services are accessible to small and medium-sized corporate clients through the business network, while commercial centres at NLB are available to larger corporate clients.

The NLB Group offers its corporate clients current and deposit accounts as well as short-, medium- and long-term secured and unsecured loans, revolving credit facilities, overdraft facilities, export/import financing, issuance of guarantees and letters of credit, credit cards, e-banking NLB Proklik, m-banking Klikpro and certain payment services. Additionally, the NLB Group offers its corporate and institutional clients a full range of offerings in debt and equity capital markets, M&A, advisory, brokerage, treasury solutions and custodian services.

#### ***International desk***

Through NLB's International Desk, which connects all banking members of the NLB Group, NLB approaches and services clients in a more structured and uniform way throughout the region. The International Desk focuses on coordination and promotion of cross-sell activities at the NLB Group level to utilise synergies as well as on using a targeted sales approach to the companies headquartered in and outside the region in which the NLB Group operates. This aims to allow the NLB Group to further strengthen its position as the largest banking and financial group headquartered in SEE and with an exclusive strategic interest in this region.

Pursuant to this effort, NLB established a business line to support cross-border opportunities as well. The Bank has actively started to exploit business opportunities in SEE arising after the EC commitments affecting the Group were lifted. NLB increasingly presents itself in its core markets as a leading regional bank with a complete range of Corporate and Investment Banking services.

#### ***Investment banking***

In the six months ended 2019, NLB was involved in assisting Slovenian companies to raise funding by arranging EUR 250 million worth of issuance in debt instruments. Acting as a mandated lead arranger, the Bank organised syndicated loans in the total amount of EUR 60 million.

In addition, NLB advised on other corporate finance transactions, including sales of stakes in companies and takeovers, as well as providing valuations. NLB also provides syndication services for private equity projects and infrastructure projects.

#### ***International trade finance transactions***

NLB supports its clients with a range of trade finance services offered in international markets through a network of correspondent relationships and lines for financing international trade.

The main services the Bank offers its clients, beside trade finance products such as letters of credit and bank guarantees, are confirmations of letters of credit and guarantees, reimbursement undertakings, post-financing and the repurchase of receivables under documentary letters of credit, the issue of guarantees based on the counter guarantees of foreign banks as well as supply chain finance services.

## Custody services

The Bank is one of the top Slovenian players in custodian services for Slovenian and international customers, strengthening its position by expansion of its client base in both of these areas of business, custody services as ancillary investment services and depositary services for funds. The Bank acts as a gateway into the region using its own network and partner institutions in order to offer seamless service to its customers. The Bank's focus as a client-oriented service provider remains strong. As at 30 June 2019 the total value of assets under custody had stabilised at EUR 15.6 billion.

## Financial markets

The financial markets in the Slovenian segment include treasury activities, trading in financial instruments and asset and liability management for the Bank and the NLB Group. Transactions with financial instruments is separated between treasury that covers all treasury operations with banks and financial institutions (money market deposits, repos, trading with securities, foreign exchange and derivatives) and treasury sales that covers treasury operations with corporates on foreign exchange and derivatives products. In the six months ended 30 June 2019 and the year ended 31 December 2018, profit-before-tax generated in this segment reached EUR 13.4 million and EUR 26.5 million, respectively, and as at 30 June 2019 and 31 December 2018 segment assets were EUR 3.9 billion and EUR 3.6 billion, respectively.

The following table shows the performance of the NLB Group's financial markets segment in the six months ended 30 June 2018, six months ended 30 June 2019, year ended 31 December 2017 and year ended 31 December 2018.<sup>7</sup>

|   | As at and for the six months ended 30 June |             | As at and for the year ended 31 December |             |
|---|--|-------------|--|-------------|
|   | 2018                                       | 2019        | 2017                                     | 2018        |
|   | <i>(in millions of Euros)</i>              |             |  |             |
| Net interest income .....                             | 17.7                                       | 15.9        | 32.5                                     | 31.7        |
| Net non-interest income .....                         | 3.9  | 1.5         | 7.3                                      | 7.1         |
| <b>Total net operating income</b> .....               | <b>21.6</b>                                | <b>17.4</b> | <b>39.8</b>                              | <b>38.8</b> |
| Total costs .....                                     | (6.3)                                      | (3.5)       | (12.4)                                   | (12.6)      |
| <b>Result before impairments and provisions</b> ..... | <b>15.3</b>                                | <b>13.8</b> | <b>27.4</b>                              | <b>26.2</b> |
| Impairments and provisions .....                      | 0.0  | (0.5)       | 0.0                                      | 0.2         |
| <b>Result before tax</b> .....                        | <b>15.3</b>                                | <b>13.4</b> | <b>27.3</b>                              | <b>26.5</b> |
| Reportable segment assets .....                       | 3,684.6                                    | 3,911.6     | 3,508.5                                  | 3,635.0     |
| Reportable segment liabilities .....                  | 455.1                                      | 423.5       | 501.6                                    | 391.1       |

## Transactions in financial instruments

Individual transactions in foreign currencies with customers, forward foreign exchange transactions and the deposits of non-banking financial institutions (including the Ministry of Finance) are offered to counterparties.

NLB has continued to play an important role in maintaining the liquidity of Slovenian government bonds through the electronic MTS Slovenia platform, where certain Slovenian bonds are listed. The Bank also maintains its active role in the primary market of Slovenian government treasury bills.

## Strategic Foreign Markets

The core part of the NLB Group in foreign markets consists of six banks. The primary focus of banking members is on the retail and small and micro enterprises' segments. As at 30 June 2019, the NLB Group bank subsidiaries in four out of six markets (North Macedonia, Republika Srpska, Kosovo and Montenegro) had market shares exceeding 10 per cent. measured by total assets.<sup>8</sup> NLB's core subsidiaries in SEE markets (North Macedonia, Bosnia and Herzegovina, Kosovo, Serbia and Montenegro) had, for the six months ended 30 June 2019 and the year ended 31 December 2018, an aggregate profit-before-tax of EUR 43.4 million and EUR 99.7 million, respectively, including the result of minority owners and with segment assets

<sup>7</sup> Data for 2017, H1 2018, 2018 is without Investment banking, which was part of the Financial markets segment until 2018.

<sup>8</sup> Sources: Data of the National Bank of the Republic of North Macedonia, the Central Bank of Bosnia and Herzegovina, the Central Bank of Kosovo and the Central Bank of Montenegro.

of EUR 4.4 billion and EUR 4.3 billion, respectively and segment liabilities of EUR 3.7 billion and EUR 3.6 billion respectively.

The following table shows the performance of the NLB Group's strategic foreign markets segment in the six months ended 30 June 2018 and six months ended 30 June 2019, year ended 31 December 2017 and year ended 31 December 2018.

|   | As at and for the six months ended 30 June |              | As at and for the year ended 31 December |              |
|---|--|--------------|--|--------------|
|   | 2018                                       | 2019         | 2017                                     | 2018         |
|   | <i>(in millions of Euros)</i>              |              |  |              |
| Net interest income .....                             | 71.9                                       | 77.9         | 144.6                                    | 150.1        |
| Net non-interest income .....                         | 37.2                                       | 23.8         | 47.1                                     | 63.9         |
| <b>Total net operating income</b> .....               | <b>109.2</b>                               | <b>101.6</b> | <b>191.7</b>                             | <b>214.0</b> |
| Total costs .....                                     | (49.1)                                     | (51.1)       | (97.2)                                   | (100.0)      |
| <b>Result before impairments and provisions</b> ..... | <b>60.0</b>                                | <b>50.6</b>  | <b>94.5</b>                              | <b>114.0</b> |
| Impairments and provisions .....                      | (1.5)                                      | (7.1)        | 7.6                                      | (14.3)       |
| <b>Result before tax</b> .....                        | <b>58.6</b>                                | <b>43.4</b>  | <b>102.0</b>                             | <b>99.7</b>  |
| Result of minority shareholders .....                 | 4.5  | 3.8          | 8.2                                      | 7.9          |
| Reportable segment assets .....                       | 3,978.1                                    | 4,404.8      | 3,851.2                                  | 4,293.2      |
| Reportable segment liabilities .....                  | 3,316.1                                    | 3,724.4      | 3,264.8                                  | 3,596.4      |

The NLB Group's focus in strategic foreign markets is banking as the primary activity, with a medium-term emphasis on retail and SME banking.

The NLB Group aims to promote organic growth in its subsidiary banks. The Group also seeks to exploit synergies, with a focus on improving client centricity, the introduction of modern technologies and digitalisation, improving operational performance and managing talent. As the commitments towards the EC which restrain Group members in certain areas of business expire, subsidiary banks will be in a position to take up new opportunities in the regional banking sector.

In the six months ended 30 June 2019, the banks in the NLB Group strategic foreign markets upgraded several products and services which included streamlining and modernising the distribution network and improving their digital offering. Namely, they are gradually introducing new digital services and upgrading existing digital products. Good examples are the Mobile wallet (NLB Pay), which has already been offered to clients by NLB Banka, Skopje, NLB Banka, Sarajevo, NLB Banka Prishtina and a new communication platform based on Viber for interactions with clients which was introduced by NLB Banka, Podgorica as well as NLB Banka, Skopje.

The following tables show key balance sheet and profit and loss data for NLB Group banks in Southeastern Europe as at and for the six months ended 30 June 2018, the six months ended 30 June 2019, the year ended 31 December 2017 and the year ended 31 December 2018:

#### NLB Banka, Skopje

|  | As at and for the six months ended 30 June |             | As at and for the year ended 31 December |             |
|--|--|-------------|--|-------------|
|  | 2018                                       | 2019        | 2017                                     | 2018        |
|  | <i>(in millions of Euros)</i>              |             |  |             |
| Net interest income .....                  | 23.7                                       | 24.5        | 49.7                                     | 48.8        |
| Net non-interest income .....              | 16.1                                       | 7.5         | 12.8                                     | 24.0        |
| Impairments and provisions .....           | (2.9)                                      | (3.3)       | 5.5                                      | (6.8)       |
| <b>Result after tax</b> .....              | <b>22.6</b>                                | <b>14.0</b> | <b>40.0</b>                              | <b>37.1</b> |
| Total assets .....                         | 1,230.6                                    | 1,363.3     | 1,235.9                                  | 1,350.1     |
| Loan and advances to customers (net) ..... | 817.0                                      | 851.3       | 796.7                                    | 858.6       |
| Deposit from customers .....               | 981.7                                      | 1,095.2     | 1,005.3                                  | 1,076.2     |

NLB Banka, Banja Luka

|   | As at and for the six months ended 30 June |            | As at and for the year ended 31 December |             |
|---|--|------------|--|-------------|
|   | 2018                                       | 2019       | 2017                                     | 2018        |
|   | <i>(in millions of Euros)</i>              |            |  |             |
| Net interest income .....                 | 8.8  | 9.4        | 18.1                                     | 19.1        |
| Net non-interest income .....             | 5.3  | 5.3        | 9.6                                      | 10.9        |
| Impairments and provisions .....          | 3.2  | 1.8        | 10.6                                     | 1.4         |
| <b>Result after tax</b> .....             | <b>9.8</b>                                 | <b>9.6</b> | <b>23.7</b>                              | <b>16.2</b> |
| Total assets.....                         | 693.2                                      | 760.3      | 669.9                                    | 720.5       |
| Loan and advances to customers (net)..... | 368.4                                      | 392.4      | 349.1                                    | 384.8       |
| Deposit from customers .....              | 557.3                                      | 602.7      | 532.5                                    | 575.8       |

NLB Banka, Sarajevo

|   | As at and for the six months ended 30 June |            | As at and for the year ended 31 December |            |
|---|--|------------|--|------------|
|   | 2018                                       | 2019       | 2017                                     | 2018       |
|   | <i>(in millions of Euros)</i>              |            |  |            |
| Net interest income .....                 | 8.7  | 8.9        | 18.1                                     | 17.6       |
| Net non-interest income .....             | 4.1  | 4.5        | 7.5                                      | 8.3        |
| Impairments and provisions .....          | 0.2  | (0.6)      | (2.0)                                    | (2.0)      |
| <b>Result after tax</b> .....             | <b>5.5</b>                                 | <b>5.1</b> | <b>8.3</b>                               | <b>8.8</b> |
| Total assets.....                         | 548.5                                      | 612.9      | 531.0                                    | 592.2      |
| Loan and advances to customers (net)..... | 350.7                                      | 387.5      | 332.6                                    | 359.5      |
| Deposit from customers .....              | 435.7                                      | 484.6      | 427.9                                    | 472.3      |

NLB Banka, Prishtina

|   | As at and for the six months ended 30 June |            | As at and for the year ended 31 December |             |
|---|--|------------|--|-------------|
|   | 2018                                       | 2019       | 2017                                     | 2018        |
|   | <i>(in millions of Euros)</i>              |            |  |             |
| Net interest income .....                 | 12.9                                       | 15.1       | 24.5                                     | 27.4        |
| Net non-interest income .....             | 2.3  | 3.0        | 4.6                                      | 5.0         |
| Impairments and provisions .....          | (1.1)                                      | (1.5)      | (2.2)                                    | (3.8)       |
| <b>Result after tax</b> .....             | <b>7.4</b>                                 | <b>9.5</b> | <b>14.2</b>                              | <b>14.8</b> |
| Total assets.....                         | 616.2                                      | 710.7      | 584.1                                    | 668.1       |
| Loan and advances to customers (net)..... | 443.6                                      | 512.3      | 386.8                                    | 466.9       |
| Deposit from customers .....              | 530.6                                      | 599.4      | 506.7                                    | 585.9       |

NLB Banka, Podgorica

|   | As at and for the six months ended 30 June |            | As at and for the year ended 31 December |             |
|---|--|------------|--|-------------|
|   | 2018                                       | 2019       | 2017                                     | 2018        |
|   | <i>(in millions of Euros)</i>              |            |  |             |
| Net interest income .....                 | 8.5  | 9.9        | 16.4                                     | 18.0        |
| Net non-interest income .....             | 2.7  | 2.6        | 5.1                                      | 5.8         |
| Impairments and provisions .....          | 0.3  | (3.1)      | (3.8)                                    | (1.3)       |
| <b>Result after tax</b> .....             | <b>5.5</b>                                 | <b>2.7</b> | <b>5.4</b>                               | <b>10.0</b> |
| Total assets.....                         | 469.2                                      | 514.0      | 457.2                                    | 489.3       |
| Loan and advances to customers (net)..... | 289.7                                      | 328.8      | 265.1                                    | 310.7       |
| Deposit from customers .....              | 367.2                                      | 406.3      | 359.7                                    | 391.8       |

NLB Banka, Beograd

|   | As at and for the six months ended 30 June |            | As at and for the year ended 31 December |            |
|---|--|------------|--|------------|
|   | 2018                                       | 2019       | 2017                                     | 2018       |
|   | <i>(in millions of Euros)</i>              |            |  |            |
| Net interest income .....                 | 9.6  | 10.1       | 18.0                                     | 19.8       |
| Net non-interest income .....             | 1.7  | 0.8        | 3.0                                      | 3.8        |
| Impairments and provisions .....          | (0.0)                                      | (0.5)      | (0.9)                                    | (0.4)      |
| <b>Result after tax</b> .....             | <b>2.5</b>                                 | <b>1.0</b> | <b>3.7</b>                               | <b>5.2</b> |
| Total assets.....                         | 417.3                                      | 527.4      | 370.8                                    | 484.5      |
| Loan and advances to customers (net)..... | 284.4                                      | 363.3      | 238.8                                    | 318.8      |
| Deposit from customers .....              | 287.0                                      | 369.7      | 259.8                                    | 352.9      |

## Non-Core Members

Non-core members include the operations of non-core Group members, REAM entities, and two SPVs (NLB Srbija and NLB Crna Gora) according to the EC commitments. In the six months ended 30 June 2019 and the year ended 31 December 2018, profit-before-tax generated in this segment reached EUR 0.4 million and EUR 8.2 million, respectively, and as at 30 June 2019 and 31 December 2018 segment assets were EUR 205.8 million and EUR 263.7 million, respectively<sup>9</sup>.

The following table shows the performance of the non-core markets and activities segment in the six months ended 30 June 2018 and six months ended 30 June 2019, year ended 31 December 2017 and year ended 31 December 2018<sup>10</sup>.

|   | As at and for the six months ended 30 June |              | As at and for the year ended 31 December |             |
|---|--|--------------|--|-------------|
|   | 2018                                       | 2019         | 2017                                     | 2018        |
|   | <i>(in millions of Euros)</i>              |              |  |             |
| Net interest income .....                             | 5.3  | 1.6          | 16.8                                     | 9.3         |
| Net non-interest income .....                         | 4.2  | 4.3          | 23.2                                     | 5.2         |
| <b>Total net operating income</b> .....               | <b>9.6</b>                                 | <b>5.9</b>   | <b>40.0</b>                              | <b>14.5</b> |
| Total costs .....                                     | (9.4)                                      | (6.5)        | (21.7)                                   | (18.2)      |
| <b>Result before impairments and provisions</b> ..... | <b>0.2</b>                                 | <b>(0.6)</b> | <b>18.2</b>                              | <b>-3.7</b> |
| Impairments and provisions .....                      | 7.8  | 1.0          | 12.9                                     | 11.9        |
| <b>Result before tax</b> .....                        | <b>8.0</b>                                 | <b>0.4</b>   | <b>31.2</b>                              | <b>8.2</b>  |
| Reportable segment assets .....                       | 345.0                                      | 205.8        | 391.3                                    | 263.7       |
| Reportable segment liabilities .....                  | 17.4                                       | 8.1          | 19.3                                     | 18.3        |

Note: Due to the new methodology, the segment results for 2019 are not directly comparable to the segment results from the previous year.

The main objective of the non-core segment is to wind down all non-core portfolios and consequently reduce costs.

## LIQUIDITY

As of the date of this Offering Circular, the NLB Group has at its disposal sufficient liquidity reserves to cover liabilities that fall or may fall due for payment. Liquidity reserves are required to be available at short notice, following the realisation of a stress scenario (that is, immediately or within one week). Liquidity reserves include funds on settlement accounts with central banks (funds exceeding the reserve requirement), sight and short-term deposits at other banks (less the necessary amount of funds for continuous payment processing), debt securities and ECB-eligible credit claims.

Liquidity reserves management in the NLB Group is decentralised. Each Group member is responsible for its own portfolio, while financial markets in Slovenia manages the liquid assets of NLB.

Debt securities are classified into trading or banking book securities depending on the purpose of their acquisition and on the intended manner of their disposal. Securities placed in the banking book serve as an instrument for the placement of excess liquidity, as explained below, while the purpose of trading book securities is to generate profits from resale.

The purpose of banking book securities is to provide liquidity, to stabilise the interest margin and to help manage interest rate risk.

<sup>9</sup> The data for 2018 corresponds to the segment composition at that time. Further details are in NLB Group Interim Report H1 2019, p. 82.

<sup>10</sup> Data for the years 2017 and 2018 corresponds to the segment composition at that time. Further details are in the NLB Group Interim Report H1 2019, p. 82.

The following table shows the liquidity reserves for the NLB Group and NLB as at 31 December 2017 and 2018.

|                                     | NLB Group                     |         | NLB     |         |
|-------------------------------------|-------------------------------|---------|---------|---------|
|                                     | As at 31 December             |         |         |         |
|                                     | 2017                          | 2018    | 2017    | 2018    |
|                                     | <i>(in millions of Euros)</i> |         |         |         |
| Liquidity reserves.....             |                               |         |         |         |
| Cash and central bank reserves..... | 1,068.5                       | 1,388.1 | 494.5   | 728.4   |
| Placements with banks.....          | 694.3                         | 316.7   | 512.9   | 136.3   |
| Trading book securities.....        | 59.2                          | 48.7    | 59.2    | 48.7    |
| Banking book securities.....        | 2,915.2                       | 3,278.0 | 2,422.8 | 2,758.6 |
| ECB eligible loans.....             | 717.5                         | 140.8   | 717.5   | 140.8   |
| Total liquid assets.....            | 5,454.6                       | 5,172.3 | 4,206.9 | 3,812.8 |
| Encumbered liquid assets.....       | 428.1                         | 425.5   | 129.2   | 89.5    |
| Unencumbered liquid assets.....     | 5,026.6                       | 4,746.7 | 4,077.7 | 3,723.3 |

The following table shows the liquidity reserves for the NLB Group and NLB as of 30 June 2018 and 30 June 2019.

|                                     | NLB Group                     |         | NLB     |         |
|-------------------------------------|-------------------------------|---------|---------|---------|
|                                     | As at 30 June                 |         |         |         |
|                                     | 2018                          | 2019    | 2018    | 2019    |
|                                     | <i>(in millions of Euros)</i> |         |         |         |
| Liquidity reserves.....             |                               |         |         |         |
| Cash and central bank reserves..... | 1,074.6                       | 1,277.4 | 549.6   | 663.4   |
| Placements with banks.....          | 674.3                         | 288.7   | 531.4   | 142.0   |
| Trading book securities.....        | 52.8                          | 93.2    | 52.8    | 93.2    |
| Banking book securities.....        | 3,089.1                       | 3,606.7 | 2,567.2 | 2,986.7 |
| ECB eligible loans.....             | 591.2                         | 128.1   | 591.2   | 128.1   |
| Total liquid assets.....            | 5,482.0                       | 5,394.1 | 4,292.2 | 4,013.3 |
| Encumbered liquid assets.....       | 419.4                         | 442.2   | 126.9   | 121.6   |
| Unencumbered liquid assets.....     | 5,062.6                       | 4,951.9 | 4,165.3 | 3,891.7 |

As at 30 June 2019 and 31 December 2018, liquid assets made up 41 per cent. and 41 per cent. of the NLB Group respectively (of which EUR 0.44 billion and EUR 0.43 billion respectively were encumbered for operational and regulatory purposes). The liquidity coverage ratio of the NLB Group, as defined by Basel Committee on Banking Supervision, stood at 344 per cent. and 361 per cent. respectively.

As at 30 June 2019, the NLB Group had an LTD of 67.7 per cent., meeting liquidity targets high above the regulatory requirements, and confirming the low liquidity risk approach of the NLB Group. The NLB Group holds a comfortable liquidity position at both the NLB Group and subsidiary bank levels.

As at 30 June 2019 and 31 December 2018, the banking book securities portfolio represented 67 per cent. and 63 per cent. respectively of the NLB Group's liquid assets, was dispersed appropriately in terms of issuers, countries and remaining maturity, with the aim of achieving adequate liquidity and interest risk management.

## FUNDING

Non-banking sector deposits represented the highest proportion of the NLB Group's funding as at 30 June 2019 and 31 December 2018, accounting for 81.7 per cent. and 82.1 per cent. of total liabilities and equity respectively.

As at 30 June 2019 and 31 December 2018, the proportion of total liabilities and equity accounted for by subordinated debt securities issued by NLB was 0.49 per cent. and 0.00 per cent. respectively, while the proportion of total liabilities and equity accounted for by deposits from banks was 0.78 per cent. and 0.56 per cent. respectively.

As at 30 June 2019 and 31 December 2018, the NLB Group subordinated debt securities issued were 0.34 per cent. and 0.12 per cent. of total liabilities and equity, while the proportion of total liabilities and equity accounted for by deposits from banks was 0.34 per cent. and 0.21 per cent. respectively.

The following table shows the split of total liabilities for the NLB Group as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019.

|                                       | <b>NLB Group</b>              |                 |                 |                 |
|---------------------------------------|-------------------------------|-----------------|-----------------|-----------------|
|                                       | <b>31 December</b>            |                 | <b>30 June</b>  |                 |
|                                       | <b>2017</b>                   | <b>2018</b>     | <b>2018</b>     | <b>2019</b>     |
|                                       | <i>(in millions of Euros)</i> |                 |                 |                 |
| Deposits from customers               | 9,879.0                       | 10,464.0        | 10,018.0        | 10,753.5        |
| - Corporate                           | 2,260.1                       | 2,337.3         | 2,203.6         | 2,294.6         |
| - Individuals                         | 7,362.9                       | 7,865.6         | 7,548.4         | 8,178.9         |
| - State                               | 256.0                         | 261.1           | 266.0           | 280.0           |
| Deposits from banks and central banks | 40.6                          | 26.8            | 39.1            | 44.8            |
| Borrowings                            | 353.9                         | 320.3           | 333.6           | 306.8           |
| Other liabilities                     | 248.7                         | 256.5           | 275.9           | 386.8           |
| Subordinated liabilities              | 27.4                          | 15.1            | 15.0            | 44.9            |
| Equity                                | 1,653.6                       | 1,616.2         | 1,796.7         | 1,587.4         |
| Non-controlling interests             | 34.6                          | 41.2            | 37.9            | 40.3            |
| <b>Total liabilities and equity</b>   | <b>12,237.7</b>               | <b>12,740.0</b> | <b>12,516.2</b> | <b>13,164.4</b> |

## Deposits

The NLB Group is primarily funded by deposits. The following table shows deposits from banks and other customers for the NLB Group and NLB as at 31 December 2017 and 2018.

|                                 | <b>NLB Group</b>              |                 | <b>NLB</b>     |                |
|---------------------------------|-------------------------------|-----------------|----------------|----------------|
|                                 | <b>As at 31 December</b>      |                 |                |                |
|                                 | <b>2017</b>                   | <b>2018</b>     | <b>2017</b>    | <b>2018</b>    |
|                                 | <i>(in millions of Euros)</i> |                 |                |                |
| <b>Deposits on demand</b>       |                               |                 |                |                |
| Banks .....                     | 36.3                          | 23.2            | 71.4           | 41.9           |
| Other customers .....           | 7,332.3                       | 8,281.2         | 5,455.7        | 6,084.8        |
| - governments.....              | 203.2                         | 214.8           | 80.3           | 83.3           |
| - financial organisations ..... | 156.7                         | 120.9           | 140.4          | 106.1          |
| - companies .....               | 1,692.8                       | 1,857.6         | 1,042.3        | 1,112.0        |
| - individuals .....             | 5,279.6                       | 6,087.9         | 4,192.7        | 4,783.5        |
| <b>Other deposits</b>           |                               |                 |                |                |
| Banks .....                     | 4.3                           | 3.6             | 0.7            | 7.0            |
| Other customers .....           | 2,546.0                       | 2,182.8         | 1,355.3        | 948.6          |
| - governments.....              | 52.7                          | 46.3            | 44.3           | 35.8           |
| - financial organisations ..... | 129.0                         | 91.9            | 66.8           | 8.2            |
| - companies .....               | 281.5                         | 266.9           | 185.2          | 166.0          |
| - individuals .....             | 2,082.8                       | 1,777.7         | 1,059.0        | 738.6          |
| <b>Total .....</b>              | <b>9,919.0</b>                | <b>10,490.8</b> | <b>6,883.0</b> | <b>7,082.3</b> |

The following table shows deposits from banks and other customers for the NLB Group and NLB as at 30 June 2018 and 30 June 2019.

|                                 | NLB Group                     |                 | NLB            |                |
|---------------------------------|-------------------------------|-----------------|----------------|----------------|
|                                 | As at 30 June                 |                 |                |                |
|                                 | 2018                          | 2019            | 2018           | 2019           |
|                                 | <i>(in millions of Euros)</i> |                 |                |                |
| <b>Deposits on demand</b>       |                               |                 |                |                |
| Banks .....                     | 36.0                          | 43.2            | 55.0           | 70.7           |
| Other customers .....           | 7,743.1                       | 8,641.9         | 5,775.4        | 6,325.4        |
| - governments.....              | 202.6                         | 234.7           | 67.8           | 94.8           |
| - financial organisations ..... | 172.8                         | 149.0           | 149.7          | 116.1          |
| - companies .....               | 1,709.8                       | 1,783.0         | 1,060.5        | 1,016.0        |
| - individuals .....             | 5,658.0                       | 6,475.2         | 4,497.5        | 5,098.6        |
| <b>Other deposits</b>           |                               |                 |                |                |
| Banks .....                     | 3.1                           | 1.6             | 0.5            | 0.7            |
| Other customers .....           | 2,274.9                       | 2,111.6         | 1,104.1        | 884.7          |
| - governments.....              | 63.4                          | 45.3            | 44.7           | 32.5           |
| - financial organisations ..... | 73.2                          | 108.9           | 17.2           | 29.4           |
| - companies .....               | 247.9                         | 253.6           | 166.4          | 157.1          |
| - individuals .....             | 1,890.5                       | 1,703.7         | 875.7          | 665.7          |
| <b>Total .....</b>              | <b>10,057.1</b>               | <b>10,798.3</b> | <b>6,934.9</b> | <b>7,281.4</b> |

The following table shows deposits from the state, from individuals and from corporates for the Bank as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019:

|                                 | As at 30 June                 |            | As at 31 December |            |
|---------------------------------|-------------------------------|------------|-------------------|------------|
|                                 | 2018                          | 2019       | 2017              | 2018       |
|                                 | <i>(in billions of Euros)</i> |            |                   |            |
| Deposits from state.....        | 0.1                           | 0.1        | 0.1               | 0.1        |
| Deposits from corporates.....   | 1.4                           | 1.3        | 1.4               | 1.4        |
| Deposits from individuals ..... | 5.4                           | 5.8        | 5.3               | 5.5        |
| <b>Total .....</b>              | <b>6.9</b>                    | <b>7.2</b> | <b>6.8</b>        | <b>7.0</b> |

The above shows an inflow of deposits. The Bank's deposit structure has changed from a maturity perspective, with cheaper sight deposits prevailing in the structure. There has been a decrease in interest expenses due to a decrease in average deposit rates (please see the table below).

The following table shows deposit rates for the Bank as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019:

|                 | As at 30 June      |      | As at 31 December |      |
|-----------------|--------------------|------|-------------------|------|
|                 | 2018               | 2019 | 2017              | 2018 |
|                 | <i>(per cent.)</i> |      |                   |      |
| Long term.....  | 0.69               | 0.64 | 0.73              | 0.68 |
| Short term..... | 0.10               | 0.09 | 0.10              | 0.10 |
| Sight.....      | 0.01               | 0.01 | 0.01              | 0.01 |

The following table shows deposits from the state, from individuals and from corporates for the banks in the NLB Group strategic foreign markets as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019:

|                                 | As at 30 June                 |            | As at 31 December |            |
|---------------------------------|-------------------------------|------------|-------------------|------------|
|                                 | 2018                          | 2019       | 2017              | 2018       |
|                                 | <i>(in billions of Euros)</i> |            |                   |            |
| Deposits from state.....        | 0.2                           | 0.2        | 0.1               | 0.1        |
| Deposits from corporates.....   | 0.8                           | 1.0        | 0.8               | 1.0        |
| Deposits from individuals ..... | 2.2                           | 2.4        | 2.1               | 2.3        |
| <b>Total .....</b>              | <b>3.1</b>                    | <b>3.6</b> | <b>3.1</b>        | <b>3.4</b> |

The following table shows deposit rates in the banks in the NLB Group strategic foreign markets as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019:

|                    | As at 30 June |      | As at 31 December |      |
|--------------------|---------------|------|-------------------|------|
|                    | 2018          | 2019 | 2017              | 2018 |
| Deposit rate ..... | 0.64          | 0.55 | 0.71              | 0.61 |

*(per cent.)*

There has been a shift towards cheaper sight deposits in the banks in the NLB Group strategic foreign markets since 31 December 2017 and a decrease in interest expenses, driven by a decrease in deposit rates.

For the year ended 31 December 2018 and 2017, interest expenses from deposits for the Bank was EUR 5.7 million and EUR 9.0 million respectively. For the six months ended 30 June 2019 and 2018, interest expenses from deposits for the Bank was EUR 2.2 million and EUR 3.2 million respectively. For the year ended 31 December 2018 and 2017, interest expenses from deposits the banks in the NLB Group strategic foreign markets was EUR 19.6 million and EUR 20.8 million respectively. For the six months ended 30 June 2019 and 2018, interest expenses from deposits in the banks in the NLB Group strategic foreign markets was EUR 9.5 million and EUR 9.9 million respectively.

The following table shows the average cost of funding for the NLB Group and NLB as at 31 December 2015, 2016, 2017, 2018, 30 June 2018 and 30 June 2019:

|                               | NLB Group         |      |               | NLB               |      |               |
|-------------------------------|-------------------|------|---------------|-------------------|------|---------------|
|                               | As at 31 December |      | As at 30 June | As at 31 December |      | As at 30 June |
|                               | 2017              | 2018 | 2019          | 2017              | 2018 | 2019          |
| Average cost of funding ..... | 0.39              | 0.28 | 0.25          | 0.21              | 0.10 | 0.09          |

*(in per cent.)*

#### Borrowings from banks / financial institutions

As at 30 June 2019 and 31 December 2018, the NLB Group's borrowings in the form of loans amounted EUR 307 million and EUR 320 million respectively, while the subordinated debt amounted to EUR 45 million and EUR 15 million respectively.

The following table shows the volume of borrowings from banks and other customers for NLB Group and NLB for years ended 31 December 2017 and 2018.

|                                 | NLB Group                     |              | NLB          |              |
|---------------------------------|-------------------------------|--------------|--------------|--------------|
|                                 | Year ended 31 December        |              |              |              |
|                                 | 2017                          | 2018         | 2017         | 2018         |
|                                 | <i>(in millions of Euros)</i> |              |              |              |
| <b>Loans</b>                    |                               |              |              |              |
| - banks .....                   | 279.6                         | 258.4        | 260.7        | 244.1        |
| - governments .....             | 17.1                          | 10.6         | -            | -            |
| - financial organisations ..... | 49.3                          | 45.4         | -            | -            |
| - companies .....               | 8.0                           | 5.8          | 5.7          | 4.1          |
| <b>Total .....</b>              | <b>353.9</b>                  | <b>320.2</b> | <b>266.5</b> | <b>248.3</b> |

The following table shows the volume of borrowings from banks and other customers for NLB Group and NLB in the six months ended 30 June 2018 and in the six months ended 30 June 2019.

|                                 | NLB Group                     |              | NLB          |              |
|---------------------------------|-------------------------------|--------------|--------------|--------------|
|                                 | Six months ended 30 June      |              |              |              |
|                                 | 2018                          | 2019         | 2018         | 2019         |
|                                 | <i>(in millions of Euros)</i> |              |              |              |
| <b>Loans</b>                    |                               |              |              |              |
| - banks .....                   | 268.5                         | 246.8        | 252.5        | 235.3        |
| - governments .....             | 11.7                          | 9.8          | -            | -            |
| - financial organisations ..... | 46.2                          | 44.9         | -            | -            |
| - companies .....               | 7.1                           | 5.3          | 4.9          | 3.7          |
| <b>Total .....</b>              | <b>333.6</b>                  | <b>306.8</b> | <b>257.4</b> | <b>238.9</b> |

## Senior debt securities in issue

The Bank had no senior debt securities in issue outstanding as at 30 June 2019 and 31 December 2018.

## Subordinated liabilities

As at 30 June 2019 and 31 December 2018 the NLB Group had EUR 45 million (nominal amount) and EUR 15 million (nominal amount) of subordinated liabilities respectively.

On 30 June 2019 the outstanding security was the NLB's EUR 45 million of Tier 2 subordinated notes issued on 6 May 2019, with a final maturity on 6 May 2029, if not prepaid earlier (NLB27 and ISIN SI0022103855). It carries a fixed coupon interest rate during the first five years of 4.2 per cent. p.a. (based on a five-year mid-swap and a fixed margin of 4.159 per cent.); thereafter the fixed coupon interest rate shall be determined based on the sum of the then applicable reference interest rate (a five-year mid-swap) and the fixed margin as defined at the issuance date of the notes.

|                               |              |   | NLB Group       |               |                  |               |
|-------------------------------|--------------|---|-----------------|---------------|------------------|---------------|
|                               |              |   | As at           |               | As at            |               |
|                               |              |   | 30 June 2019    |               | 31 December 2018 |               |
| Subordinated liabilities      |              |   | Carrying amount | Nominal value | Carrying amount  | Nominal value |
| Currency                      | Due date     | Interest rate   |                 |               |                  |               |
| <i>(in millions of Euros)</i> |              |   |                 |               |                  |               |
| <b>Subordinated bonds</b>     |              |   |                 |               |                  |               |
| EUR                           | 6 May 2029   | 4.2 per cent. p.a., after 5 years: 5 years IRS + 4.159% p.a. .... | 44.861          | 45.000        | -                | -             |
| <b>Subordinated loans</b>     |              |   |                 |               |                  |               |
| EUR                           | 30 June 2020 | 6-month EURIBOR + 7.7% p. a. ....                                 | -               | -             | 5.110            | 5.000         |
| EUR                           | 26 June 2025 | 6-month EURIBOR + 6.25% p. a. ....                                | -               | -             | 9.940            | 10.000        |
| <b>Total</b>                  |              |   | <b>44.861</b>   | <b>45.000</b> | <b>15.050</b>    | <b>15.000</b> |

## INVESTMENTS

### *Description of recent material investments*

In 2015, NLB started a program to renovate branches in accordance with new organisational standards for branches including the introduction of automatic cash registers. In addition, the introduction of these new standards has aided the optimisation of branch costs. In 2017 16 branches were renovated, in 2018 additional 7 branches, and in the six months ended 30 June 2019, 5 branches were renovated. In total 53 branches were renovated from 2015 to 30 June 2019.

The NLB Group has also invested in the purchase of licenses and maintenance contracts for several software and hardware solutions by renowned global and regional providers of banking software and IT equipment.

With regards to IT infrastructure, NLB has invested into new server farms in order to consolidate and standardise the distributed server platform across the NLB Group. The objective of adopting standardised server platforms is to build up a high availability, reliable, secure and cost-effective environment for the application systems.

The NLB Group has set up a specialised team for repossessing, managing and selling real estate as a non-core element of its business. Management entities have been established in three relevant markets, Croatia, Serbia and Montenegro (REAM Zagreb, REAM Beograd, REAM Podgorica). In Serbia and Montenegro separate special purpose vehicles manage non-performing loans and in some cases real estate held or leased by Core NLB Group Members, while in the Republic of Slovenia, PRO-REM (now in liquidation) has been carved out from NLB Leasing, Ljubljana, including assets, real-estate management and staff. In consideration of the status of this company, which is in liquidation, a new company was established in 2017 in the Republic of Slovenia (S-REAM Ljubljana).

### *Description of ongoing material investments*

Another key area of investment is in new platforms in IT infrastructure. In particular, a disk storage SAN system, also standardised on the NLB Group level. NLB is also investing into modernisation of the underlying internal network equipment, by implementing a state of the art networking equipment, also standardised across the Group.

In 2018, NLB signed a contract for the implementation of a comprehensive data management platform and hybrid integration platform and digital banking platforms.

The renovation of the remaining branches is planned up to 2020.

## **LOAN PORTFOLIO**

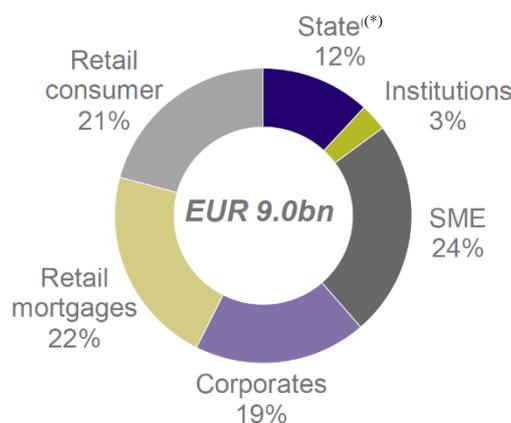
### *Quality of credit portfolio*

Although the NLB Group is concentrated in SEE, the NLB Group's credit portfolio of EUR 8,988 million as at 30 June 2019 is well diversified without any large concentration in any specific industry or client segment. For example, the portfolio consists of 19 per cent. large corporates, 24 per cent. SMEs and 43 per cent. retail, while the remainder of the portfolio consists of other liquid assets. Geographically, loans in the Republic of Slovenia accounted for 54.1 per cent. of the total portfolio and 81.2 per cent. was denominated in euro as at 30 June 2019.

The NLB Group applies a conservative, disciplined and sustainable credit policy and regularly monitors effectiveness of its risk management processes to identify, monitor and control or mitigate material risks, including loan approval processes, proactive handling of problematic customers, changes in credit processes and early warning systems for detecting increased credit risk. A prudent credit approach and the improved economic environment in the NLB Group's core countries of operation have resulted in cumulatively low new formation of non-performing loans and a sustainable, relatively low cost of risk.

In the six months ended 30 June 2019, the quality of the NLB Group's credit portfolio remained solid overall and improved with a stable rating structure and portfolio diversification. The NLB Group experienced healthy lending growth and the negative cost of risk, resulting from an improved macroeconomic environment and active management of non-performing loans. The stock of non-performing exposures ("NPE") volume further decreased as a result of the successful restructuring of some major exposures and the recovery of non-performing loans, and approached the average EU banking level. In addition, the coverage ratio remains high above the EU average, enabling further NPE reduction without significant influence on the cost of risk in the years ahead. Positive trends have been recorded in almost all SEE regions, in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real-estate market.

The following figure sets out the NLB Group credit portfolio by segment as at 30 June 2019:

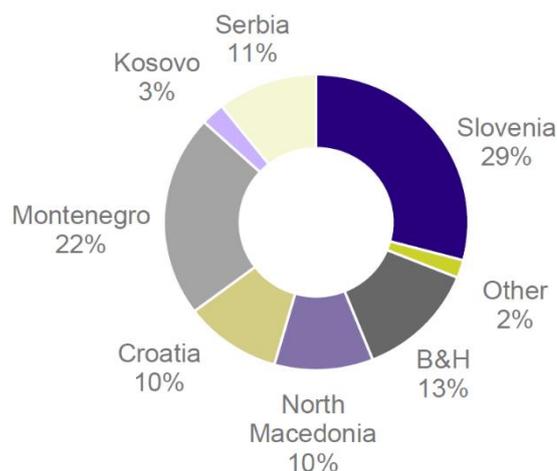


(\*) State includes exposures to central banks

The reduction of non-performing loans on the NLB Group level remained a key focus in the six months ended 30 June 2019. Precisely set targets in the NLB Group's NPL strategy, an active workout and macroeconomic recovery supported a further substantial reduction in the volume of the non-performing portfolio despite falling loan volumes. As at 31 December 2018 and 30 June 2019 the existing non-performing credit portfolio stock in the NLB Group was EUR 622 million and EUR 542 million respectively (the reduction exceeded the set targets), share of non-performing loans 6.9 per cent. and 6.0 per cent., while the internationally more comparable NPE per cent. based on EBA methodology was 4.7 per cent. and 4.1 per cent. The active approach to non-performing loan management gives strong emphasis on restructuring, and an increasing use of other active non-performing loan management tools such as foreclosure of collateral, the sale of claims, active marketing and the sale of pledged assets.

An important NLB Group strength is the non-performing loan coverage ratio. As at 31 December 2018 and 30 June 2019 the non-performing loans coverage ratio <sup>11</sup> remained high at 77.1 per cent. and 81.2 per cent. respectively, and non-performing loan coverage ratio <sup>212</sup> was 64.6 per cent. and 66.2 per cent. respectively (which is well above the EU average as published by the EBA (45.1 per cent. for Q1 2019))<sup>13</sup>. As such, it enables a further reduction in non-performing loans without significantly influencing the cost of risk in the coming years. Moreover, it proves that past reduction was done on average without a negative impact to the profit and loss account.

The following figure shows non-performing loans (in terms of volume) by geographical location of the NLB Group as at 30 June 2019:

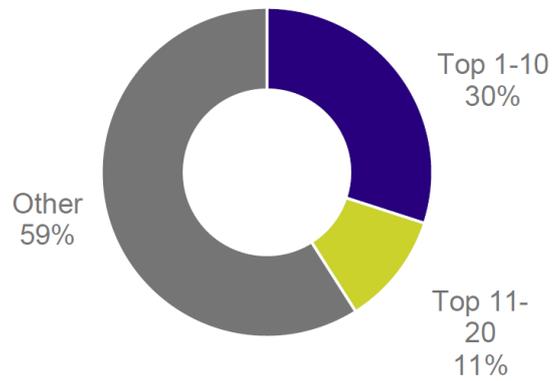


<sup>11</sup> NPL coverage ratio 1: the coverage of the gross non-performing loans portfolio with loan loss allowances on the entire loan portfolio.

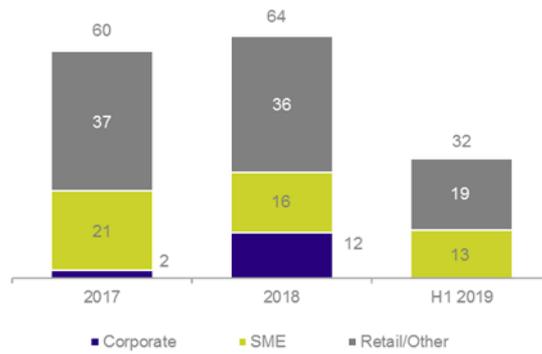
<sup>12</sup> NPL coverage ratio 2: the coverage of the gross non-performing loans portfolio with loan loss allowances on the non-performing loans portfolio.

<sup>13</sup> As at 31 December 2017, 31 December 2018 and 30 June 2019 the non-performing loans coverage ratio relating to pool provisions was 15 per cent., 12.5 per cent. and 15 per cent respectively.

The following figure shows the top 20 non-performing loans (in terms of volume) of the NLB Group as at 30 June 2019:



The following figure shows NLB Group gross non-performing loan formation by segment since 2017 (in EUR million):



As at 31 December 2017, 31 December 2018 and 30 June 2019 the gross non-performing loan formation as a percentage of gross loans was 0.7 per cent., 0.7 per cent. and 0.4 per cent. respectively.

The following table analyses the maximum exposure to credit risk of the NLB Group and NLB as at 31 December 2017 and 2018.

|  | NLB Group                     |                 | NLB            |                |
|--|-------------------------------|-----------------|----------------|----------------|
|  | As at 31 December             |                 |                |                |
|  | 2017                          | 2018            | 2017           | 2018           |
|  | <i>(in millions of Euros)</i> |                 |                |                |
| Cash, cash balances at central banks, and other demand deposits at banks.....      | 1,256.5                       | 1,588.3         | 570.0          | 795.1          |
| Financial assets held for trading .....  | 72.2                          | 63.6            | 72.2           | 63.6           |
| Non-trading financial assets mandatorily at fair value through profit or loss..... | -                             | 25.8            | -              | 26.6           |
| Financial assets designated at fair value through profit or loss .....             | 0.1                           | -               | -              | -              |
| Financial assets at fair value through other comprehensive income .....            | -                             | 1,849.0         | -              | 1,483.6        |
| <b>Financial assets at amortised cost</b>  |                               |                 |                |                |
| Debt securities .....  | -                             | 1,429.0         | -              | 1,275.0        |
| Loans to government .....  | -                             | 352.7           | -              | 267.7          |
| Loans to banks.....  | -                             | 118.7           | -              | 110.3          |
| Loans to financial organisations .....   | -                             | 88.7            | -              | 177.7          |
| Loans to individuals.....  | -                             | 3,642.1         | -              | 2,215.7        |
| Loans to other customers .....   | -                             | 3,041.2         | -              | 1,790.4        |
| Other financial assets .....   | -                             | 75.2            | -              | 42.7           |
| <b>Loans and advances (IAS 39)</b>   |                               |                 |                |                |
| Debt securities classified as loans and receivables.....                           | 82.1                          | -               | 82.1           | -              |
| Loans to government .....  | 457.1                         | -               | 358.7          | -              |
| Loans to banks.....  | 513.5                         | -               | 462.3          | -              |
| Loans to financial organizations .....   | 77.2                          | -               | 268.2          | -              |
| Loans to individuals.....  | 3,371.9                       | -               | 2,082.6        | -              |
| Loans to other customers .....   | 3,006.1                       | -               | 1,878.1        | -              |
| Other financial assets.....  | 66.3                          | -               | 38.4           | -              |
| Available-for-sale financial assets (IAS 39).....                                  | 2,227.1                       | -               | 1,730.9        | -              |
| Held-to-maturity financial assets (IAS 39).....                                    | 609.7                         | -               | 609.7          | -              |
| Derivatives – hedge accounting.....  | 1.2                           | 0.4             | 1.2            | 0.4            |
| <b>Total net financial assets</b> .....  | <b>11,741.0</b>               | <b>12,274.7</b> | <b>8,154.3</b> | <b>8,248.8</b> |
| Guarantees.....  | 741.5                         | 809.3           | 518.0          | 573.3          |
| Financial guarantees .....   | 312.6                         | 357.8           | 176.4          | 227.8          |
| Non-financial guarantees .....   | 427.0                         | 451.5           | 339.7          | 345.5          |
| Loan commitments.....  | 1,130.3                       | 1,207.6         | 898.9          | 945.9          |
| Other potential liabilities.....   | 20.6                          | 28.6            | 2.3            | 10.5           |
| <b>Total contingent liabilities</b> .....  | <b>1,892.4</b>                | <b>2,045.5</b>  | <b>1,419.3</b> | <b>1,529.7</b> |
| <b>Total maximum exposure to credit risk</b> .....                                 | <b>13,633.4</b>               | <b>14,320.2</b> | <b>9,573.6</b> | <b>9,778.5</b> |

The following table analyses the maximum exposure to credit risk of the NLB Group and NLB as at 30 June 2018 and 30 June 2019.

|  | NLB Group                     |                 | NLB            |                 |
|--|-------------------------------|-----------------|----------------|-----------------|
|  | As at 30 June                 |                 |                |                 |
|  | 2018                          | 2019            | 2018           | 2019            |
|  | <i>(in millions of Euros)</i> |                 |                |                 |
| Cash, cash balances at central banks, and other demand deposits at banks.....      | 1,298.7                       | 1,460.7         | 660.9          | 757.6           |
| Financial assets held for trading .....  | 67.5                          | 116.9           | 67.5           | 117.0           |
| Non-trading financial assets mandatorily at fair value through profit or loss..... | 21.1                          | 28.2            | 25.1           | 28.6            |
| Financial assets designated at fair value through profit or loss .....             | -                             | -               | -              | -               |
| Financial assets at fair value through other comprehensive income .....            | 1,823.3                       | 2,013.3         | 1,437.4        | 1,564.5         |
| <b>Financial assets at amortised cost</b>  |                               |                 |                |                 |
| Debt securities .....  | 1,265.7                       | 1,593.4         | 1,129.7        | 1,422.1         |
| Loans to government .....  | 394.4                         | 306.4           | 306.6          | 226.5           |
| Loans to banks .....   | 453.7                         | 108.1           | 448.6          | 130.4           |
| Loans to financial organisations .....   | 90.4                          | 108.9           | 233.7          | 165.8           |
| Loans to individuals.....  | 3,504.6                       | 3,758.5         | 2,142.4        | 2,261.7         |
| Loans to other customers .....   | 3,048.6                       | 3,080.8         | 1,839.5        | 1,780.3         |
| Other financial assets.....  | 62.8                          | 95.0            | 59.9           | 113.6           |
| Derivatives – hedge accounting.....  | 0.7                           | -               | 0.7            | -               |
| <b>Total net financial assets</b> .....  | <b>12,031.5</b>               | <b>12,670.4</b> | <b>8,352.0</b> | <b>8,568.1</b>  |
| Guarantees.....  | 776.7                         | 851.3           | 554.6          | 595.0           |
| Financial guarantees .....   | 351.4                         | 350.4           | 223.6          | 212.9           |
| Non-financial guarantees .....   | 425.3                         | 500.8           | 331.0          | 382.1           |
| Loan commitments.....  | 1,115.2                       | 1,248.3         | 881.1          | 971.3           |
| Other potential liabilities.....   | 31.1                          | 25.9            | 16.7           | 16.5            |
| <b>Total contingent liabilities</b> .....  | <b>1,923.0</b>                | <b>2,125.4</b>  | <b>1,452.4</b> | <b>1,582.9</b>  |
| <b>Total maximum exposure to credit risk</b> .....                                 | <b>13,954.5</b>               | <b>14,795.8</b> | <b>9,804.4</b> | <b>10,151.0</b> |

Maximum exposure to credit risk shown above is a presentation of the NLB Group's exposure to credit risk separately by individual types of financial assets and conditional obligations. The exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

The most important clients for NLB and the NLB Group are large corporate customers, SMEs and individuals.

The following table sets out net loans and advances by geographical location of the borrower for the NLB Group and NLB as at 31 December 2017 and 2018.

| Country                            | NLB Group                     |                | NLB            |                |
|------------------------------------|-------------------------------|----------------|----------------|----------------|
|                                    | As at 31 December             |                |                |                |
|                                    | 2017                          | 2018           | 2017           | 2018           |
|                                    | <i>(in millions of Euros)</i> |                |                |                |
| Republic of Slovenia .....         | 4,469.6                       | 4,302.7        | 4,478.8        | 4,298.0        |
| Other European Union members ..... | 484.9                         | 168.7          | 428.8          | 100.8          |
| Other countries.....               | 2,619.7                       | 2,870.9        | 262.8          | 232.4          |
| <b>Total</b> .....                 | <b>7,574.2</b>                | <b>7,342.3</b> | <b>5,170.3</b> | <b>4,631.1</b> |

The following table sets out the net loans and advances by geographical location of the borrower for the NLB Group and NLB as at 30 June 2018 and 30 June 2019.

| Country                            | NLB Group                     |                | NLB            |                |
|------------------------------------|-------------------------------|----------------|----------------|----------------|
|                                    | As at 30 June                 |                |                |                |
|                                    | 2018                          | 2019           | 2018           | 2019           |
|                                    | <i>(in millions of Euros)</i> |                |                |                |
| Republic of Slovenia .....         | 4,350.5                       | 4,296.7        | 4,355.4        | 4,295.8        |
| Other European Union members ..... | 464.1                         | 195.4          | 420.4          | 106.2          |
| Other countries.....               | 2,760.9                       | 2,991.9        | 280.0          | 305.1          |
| <b>Total</b> .....                 | <b>7,575.5</b>                | <b>7,484.0</b> | <b>5,055.8</b> | <b>4,707.0</b> |

The most important geographic market for NLB and the NLB Group is Slovenia, with other (principally SEE) countries also being important for the NLB Group.

The NLB Group's loan portfolio is diverse. The most important sectors in terms of net loans as at 31 December 2018 were individual clients, services, heavy industry and transport and communications. The net loans granted to these four sectors represented 76.8 per cent. of total loans in the NLB Group (80.5 per cent. in NLB) as at 31 December 2018, compared to 72.0 per cent. (72.6 per cent. in NLB) as at 31 December 2017.

The following table shows gross loans for the Bank as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019:

|                            | As at 30 June                 |            | As at 31 December |            |
|----------------------------|-------------------------------|------------|-------------------|------------|
|                            | 2018                          | 2019       | 2017              | 2018       |
|                            | <i>(in billions of Euros)</i> |            |                   |            |
| Loans to state .....       | 0.3                           | 0.2        | 0.4               | 0.3        |
| Loans to corporates .....  | 2.3                           | 2.1        | 2.4               | 2.2        |
| Loans to individuals ..... | 2.2                           | 2.3        | 2.1               | 2.2        |
| <b>Total</b> .....         | <b>4.8</b>                    | <b>4.6</b> | <b>4.9</b>        | <b>4.7</b> |

The Bank's loan volume is slightly decreasing. The structure is changing in favour of retail loans with higher interest rates, which is reflected in higher interest income as at 30 June 2019 compared to 30 June 2018.

The following table shows gross loans for the NLB Group banking subsidiaries as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019:

|                            | As at 30 June                 |            | As at 31 December |            |
|----------------------------|-------------------------------|------------|-------------------|------------|
|                            | 2018                          | 2019       | 2017              | 2018       |
|                            | <i>(in billions of Euros)</i> |            |                   |            |
| Loans to state .....       | 0.1                           | 0.1        | 0.1               | 0.1        |
| Loans to corporates .....  | 1.3                           | 1.4        | 1.2               | 1.3        |
| Loans to individuals ..... | 1.4                           | 1.5        | 1.3               | 1.4        |
| <b>Total</b> .....         | <b>2.7</b>                    | <b>3.0</b> | <b>2.6</b>        | <b>2.9</b> |

Interest income has increased, despite decreasing loan yields due to higher loan volume. Macro-economic growth in the SEE region could further contribute to improvements in operations.

The following table shows loan yields for the Bank as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019:

|                            | As at 30 June      |      | As at 31 December |      |
|----------------------------|--------------------|------|-------------------|------|
|                            | 2018               | 2019 | 2017              | 2018 |
|                            | <i>(per cent.)</i> |      |                   |      |
| Loans to corporates .....  | 2.05               | 2.00 | 2.14              | 2.15 |
| Loans to individuals ..... | 3.89               | 4.09 | 3.92              | 3.91 |

The following table shows loan yields for the NLB Group banking subsidiaries as at 31 December 2017, 31 December 2018, 30 June 2018 and 30 June 2019:

|                            | As at 30 June      |      | As at 31 December |      |
|----------------------------|--------------------|------|-------------------|------|
|                            | 2018               | 2019 | 2017              | 2018 |
|                            | <i>(per cent.)</i> |      |                   |      |
| Loans to corporates .....  | 4.89               | 4.62 | 5.41              | 4.92 |
| Loans to individuals ..... | 7.18               | 6.78 | 7.50              | 7.09 |

For the year ended 31 December 2018 and 2017, interest income from loans for the Bank was EUR 137.0 million and EUR 143.0 million respectively. For the six months ended 30 June 2019 and 2018, interest income from loans for the Bank was EUR 69.9 million and EUR 67.1 million respectively. For the year ended 31 December 2018 and 2017, interest income from loans in the NLB Group banking subsidiaries

was EUR 161.3 million and EUR 157.7 million respectively. For the six months ended 30 June 2019 and 2018, interest income from loans in the NLB Group banking subsidiaries was EUR 82.5 million and EUR 77.9 million respectively.

### ***Impairment methodology***

The NLB Group assesses specific and collective loan impairments at the end of each month for all exposures valued at amortized cost based on IFRS9, which came into force as of 1 January 2018. IFRS 9 requires the shift from an incurred loss model to an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires the NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses ("**ECL**") is required for all loans and other debt financial assets not held at FVTPL (fair value through profit and loss), together with loan commitments and financial guarantee contracts.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset ("**LECL**"). When determining whether the risk of default increased significantly since initial recognition, the NLB Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the NLB Group's historical data, experience, and expert credit assessment and incorporation of forward-looking information.

The NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation and the validation of models. The NLB Group classifies financial instruments into Stage 1, Stage 2 and Stage 3, based on the applied ECL allowance methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since the initial recognition, NLB Group recognises an allowance based on 12-month period;
- Stage 2 – underperforming portfolio: significant increase in credit risk since the initial recognition, NLB Group recognises an allowance for lifetime period; and
- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these defaulted financial assets. The bank uses a unified definition of past due and default exposures that is aligned with Article 178. of Regulation EU 575/2013. Defaulted clients are rated based on the bank's internal rating system and includes clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The retail clients are rated on the facility level, however the rating can be deteriorated based on the rating of other credit facilities of the same clients.

The majority of the NLB Group's loan portfolio as at 30 June 2019 is classified in Stage 1 (88.2 per cent.), then 5.7 per cent. in Stage 2, and 5.6 per cent. in Stage 3. Loans in Stages from 1 to 3 are booked at amortised cost, while the remaining minor part (0.4 per cent.) represents fair value loans through P&L (FVTPL). The portfolio quality in 2018 and first half of 2019 was very stable with increasing Stage 1 exposures and a reduction of non-performing loans. The majority of increase in Stage 2 occurred due to non-performing loan upgrades.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date, in comparison to the credit rating at initial recognition;
- when a financial asset has material delays over 30 days (days-past due are also included in the credit rating assessment);
- if the NLB Group grants the forbearance to the borrower; or
- if the facility is placed on the watch list.

ECL for Stage 1 financial assets is calculated based on twelve-month probabilities of default ("**PD**") or shorter period PDs, if the maturity of the financial asset is shorter than one year. The twelve-month PD

already includes macroeconomic impact effect. Allowance in Stage 1 is designed to reflect expected credit losses that had been incurred in the performing portfolio, but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs ("**LPD**") because their credit risk has increased significantly since their initial recognition. This calculation is also based on forward-looking assessment that takes into account the number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for those considered to be credit impaired. Exposures below the materiality threshold obtain collective allowance using PD 100 per cent. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments, where only the cumulative changes in the lifetime expected losses since initial recognition are recognised as a loss allowance.

## **RISK MANAGEMENT**

One of the NLB Group's key strategies for supporting a sustainable and profitable business is to pursue, and incrementally improve upon, risk management framework that holistically and proactively monitor all relevant risk categories of the NLB Group. The robust risk management framework is comprehensively integrated into decision making, steering and mitigation processes within the Group. The NLB Group places high importance on risk culture and awareness of all relevant risks within the entire Group.

The NLB Group's risk management policy is consistently applied throughout the NLB Group's organisational structure and aims to ensure the prudent and efficient use of the NLB Group's capital and compliance with all legal, regulatory and best practice requirements. Governance and risk management tools enable adequate oversight of the Group's risk profile. Moreover, they support business operations and enable efficient risk management by incorporating escalation procedures.

The NLB Group's risk management framework supports business decision making on strategic and operating levels, comprehensive steering, and proactive risk management by incorporating:

- risk appetite statements and risk strategy orientations;
- yearly review of strategic business goals, budgeting, and the capital planning process;
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP);
- recovery plan activities;
- other internal stress-testing capabilities and ongoing risk analysis; and
- regulatory and internal management reporting.

The NLB Group plans a prudent risk profile, optimal capital usage and profitable operations in the long-term, considering the risks assumed. The key risk management category for the NLB Group is the management of credit risk, which the NLB Group addresses through a focus on taking moderate risks and aiming for an optimal return relative to the risks assumed. In regards to liquidity risk, tolerance is low and the Group's risk management policies are geared towards ensuring an appropriate level of short-term and long-term liquidity, while for market and operational risks the NLB Group is guided by the principle that such risks must not significantly impact its operations. The tolerance for other risk types is low, with a focus on minimising their possible impacts on the NLB Group's operations.

Risk management focuses on managing and mitigating risks in line with the Group's risk appetite and risk strategy, representing the foundation of the Group's risk management framework. Within this framework the Group monitors a range of risk metrics in order to ensure the Group's risk profile is in line with its risk appetite. Risk limits are monitored and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of NLB. A comprehensive risk report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board. Additionally, the NLB Group has set up early warning systems in different risk areas

with the intention of strengthening the existing internal controls and ensuring timely responses when necessary.

In its operations, the NLB Group is exposed to credit risk, namely the risk of losses due to the failure of a debtor to settle its liabilities to the NLB Group. For this reason, the NLB Group proactively and comprehensively monitors and assesses credit risk and follows IFRS, relevant regulations and EBA guidelines. In addition, credit risk management is governed in detail by the NLB Group's internal methodologies and procedures, particularly those contained in its risk appetite, risk strategy and credit policy. The Group manages credit risk at two levels, at the level of the individual customer/group of customers and at the level of the quality of the credit portfolio.

For the purposes of an efficient risk mitigation process, the NLB Group applies a single set of standards to retail and corporate loan collateral, which is a secondary source of repayment, with the aim of efficient credit risk management and efficient use of capital. The NLB Group has a system for monitoring and reporting collateral at fair market value in accordance with the International Valuation Standards ("IVS"). When hedging market risks, the NLB Group follows the principle of natural hedging or by using derivatives in line with hedge accounting principles.

Each of the banking subsidiaries within the NLB Group have adapted a corresponding approach to their internal risk management policies, which are aligned with key NLB Group risk management guidelines and tailored for the Requirements arising from local regulations.

## **CAPITAL ADEQUACY**

The European Union bank capital legislation to which the NLB Group is subject, comprising the CRD V Package, is based on the Basel III guidelines. In this regard, the Issuer is required to satisfy applicable minimum capital requirements pursuant to the CRR (the "**Pillar 1 Requirement**") at all times. This includes a CET1 ratio of at least 4.5 per cent., a Tier 1 ratio of at least 6 per cent. and a Total Capital Ratio of at least 8 per cent. These requirements apply on a consolidated basis.

In addition to these Pillar 1 requirements, the Bank must at all times meet the capital requirements that are imposed by the ECB following the supervisory review and evaluation process (the "**Pillar 2 Requirement**", and together with the Pillar 1 requirements, a "**Total Supervisory Review and Evaluation Process Capital Requirement**").

Furthermore, the Issuer is required to satisfy at all times a combined buffer requirement within the meaning of Article 206 of ZBan-2, in the form of CET 1 capital requirement (the "**Combined Buffer Requirement**"). For the Issuer, the Combined Buffer Requirement consists of the sum of the: (i) a capital conservation buffer; (ii) a countercyclical buffer; and (iii) a capital buffer requirement for other systemically important institutions ("**O-SII Buffer**"), in each case, on a consolidated basis. The Total Supervisory Review and Evaluation Process Capital Requirement and the Combined Buffer Requirement make up the Bank's OCR.

As at 30 June 2019, the OCR of the Bank amounted to 14.75 per cent. on a consolidated basis (11.25% CET 1 requirement; 12.75% Tier 1 Capital Requirement), consisting of:

- 11.25 per cent. TSCR (comprising of a 8 per cent. Pillar 1 Requirement and 3.25 per cent. Pillar 2 Requirement) (7.75% CET 1 requirement; 9.25% Tier 1 Capital Requirement); and
- 3.5 per cent. Combined Buffer Requirement (comprising of a 2.5 per cent. capital conservation buffer, a 1 per cent. O-SII Buffer and a 0 per cent. Countercyclical Buffer, being a CET 1 requirement only).

The applicable OCR requirement for 2019 was raised to 14.75 per cent. in March 2019, due to the gradual phase-in of the capital conservation buffer as prescribed by law and the introduction of the O-SII buffer. On the other hand, the Pillar 2 Requirement decreased by 0.25 percentage points to 3.25 per cent., as a result of better overall supervisory review and evaluation process ("**SREP**") assessment.

The Issuer must also follow Pillar 2 guidance, a capital recommendation over and above the OCR, set by the supervisory institution through the SREP. Pillar 2 guidance amounts to 1.0 per cent. of CET1.

The capital of the Bank and the Group meets all the current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 guidance.

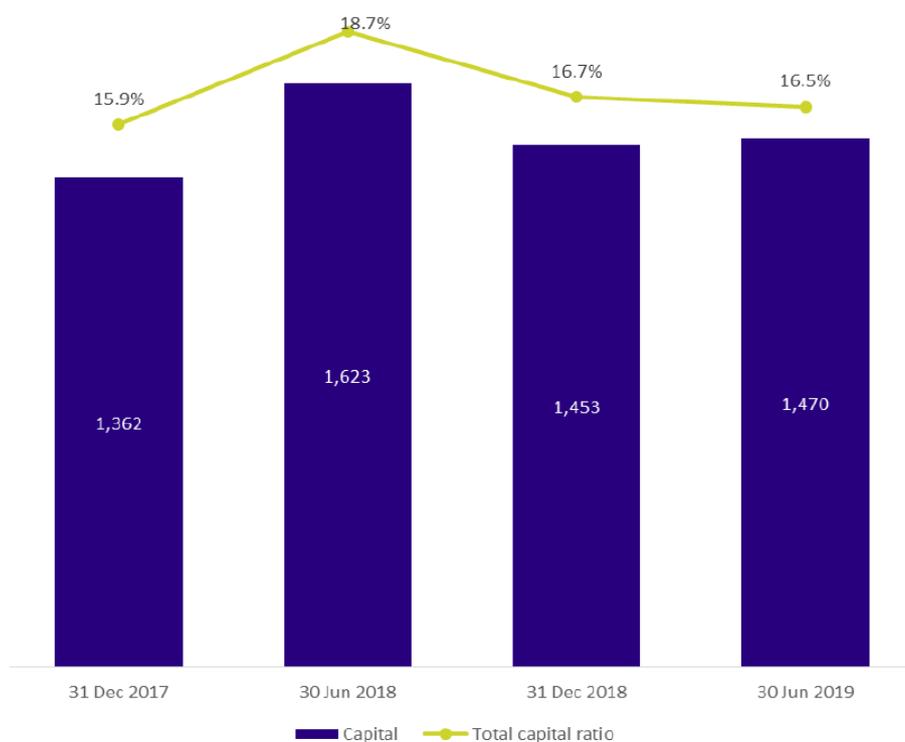
To strengthen and optimise the Group's capital structure, the Bank issued and entered into the following Tier 2 instruments in 2019:

- 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 45 million on 6 May 2019; and
- 10NC5 subordinated Tier 2 loan in the aggregate nominal amount of EUR 45 million on 20 September 2019.

As at 30 June 2019, the Total Capital Ratio for the Group stood at 16.5 per cent. (0.2 percentage points lower than at the end of 2018 and representing EUR 1,470 million of capital) and for NLB at 22.7 per cent. (1.4 percentage points lower than at the end of 2018). The Tier 1 ratio and CET 1 ratio (16.0 per cent. or 0.7 percentage points lower than at the end of 2018) differs from the Total Capital Ratio due to the abovementioned Tier 2 instruments issued in 2019. The lower capital adequacy derives from higher risk weighted assets ("**RWAs**") (EUR 257.6 million for the Group). In June 2019, NLB paid out dividends in the total amount of EUR 142.6 million, which represents EUR 7.13 gross per share. This decreased NLB capital by EUR 43.2 million. Nevertheless, Total Capital increased by EUR 16.5 million, mainly due to the Tier 2 instruments (EUR 44.6 million) issued on 6 May of 2019, higher other comprehensive income (EUR 13.8 million) and lower deduction for intangible assets (EUR 1.5 million).

In accordance with the ZRPPB, the NLB Group will, in future, need to meet a MREL target set by the Bank of Slovenia. On 17 May 2019, the Bank received a decision of the Bank of Slovenia relating to this MREL requirement, which was set to 17.93 per cent. of total liabilities and own funds at the sub-consolidated level of the NLB Resolution Group. The transition period to reach the MREL requirement is 30 June 2023 and from that date this requirement must be met at all times.

The following figure shows NLB Group Capital (in EUR million) and Total Capital Ratio (in per cent.).



The following table shows the capital adequacy ratios of the NLB Group and NLB as at 30 June 2019 and 31 December 2018.

|   | NLB Group        |                  | NLB              |                  |
|---|------------------|------------------|------------------|------------------|
|   | As at            |                  |                  |                  |
|   | 30 Jun 2019      | 31 Dec 2018      | 30 Jun 2019      | 31 Dec 2018      |
| Paid-up capital instruments .....   | 200,000          | 200,000          | 200,000          | 200,000          |
| Share premium .....   | 871,378          | 871,378          | 871,378          | 871,378          |
| Retained earnings - from previous years .....   | 358,629          | 293,026          | 51,891           | 29,192           |
| Profit or loss eligible - from current year .....   | -                | 108,829          | -                | 103,335          |
| Accumulated other comprehensive income .....  | 17,585           | 3,598            | 28,664           | 15,839           |
| Other reserves .....  | 13,522           | 13,522           | 13,522           | 13,522           |
| Prudential filters: Value adjustments due to the requirements for prudent valuation .....     | (2,215)          | (1,983)          | (1,757)          | (1,607)          |
| (-) Goodwill .....  | (3,529)          | (3,529)          | -                | -                |
| (-) Other intangible assets .....   | (29,945)         | (31,439)         | (22,594)         | (23,391)         |
| (-) Deduction item related to credit impairments and provisions not included in capital ..... | (127)            | -                | -                | -                |
| <b>COMMON EQUITY TIER 1 (CET1) .....</b>  | <b>1,425,298</b> | <b>1,453,402</b> | <b>1,141,104</b> | <b>1,208,268</b> |
| Additional Tier 1 capital .....   | -                | -                | -                | -                |
| Tier 1 capital .....  | 1,425,298        | 1,453,402        | 1,141,104        | 1,208,268        |
| Tier 2 capital .....  | 44,595           | -                | 44,595           | -                |
| <b>TOTAL CAPITAL (OWN FUNDS) .....</b>  | <b>1,469,893</b> | <b>1,453,402</b> | <b>1,185,699</b> | <b>1,208,268</b> |
| RWA for credit risk .....   | 7,428,245        | 7,179,678        | 4,314,643        | 4,150,987        |
| RWA for market risks .....  | 559,326          | 541,901          | 297,551          | 273,476          |
| RWA for credit valuation adjustment risk .....  | 6,025            | 2,563            | 6,025            | 2,563            |
| RWA for operational risk .....  | 941,594          | 953,482          | 605,581          | 596,586          |
| <b>TOTAL RISK EXPOSURE AMOUNT (RWA) .....</b>   | <b>8,935,190</b> | <b>8,677,624</b> | <b>5,223,800</b> | <b>5,023,612</b> |
| CET1 Ratio .....  | 16.0%            | 16.7%            | 21.8%            | 24.1%            |
| Tier 1 Ratio .....  | 16.0%            | 16.7%            | 21.8%            | 24.1%            |
| Total Capital Ratio .....   | 16.5%            | 16.7%            | 22.7%            | 24.1%            |

On 6 May 2019 the Bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 45 million. The fixed coupon of the notes during the first five years is 4.2 per cent. p.a., thereafter it will be reset to the sum of the then applicable five-year mid-swap and the fixed margin as defined at the time of the issuance of the notes. The notes with ticker NLB27 and ISIN code SI0022103855 were as of 8 May 2019 admitted to trading on the regulated market of the Ljubljana Stock Exchange.

## CORPORATE GOVERNANCE - NLB

In accordance with applicable legislation, NLB employs a two-tier system of corporate governance, pursuant to which NLB is managed by its Management Board and its operations are supervised by its Supervisory Board.

The Supervisory Board comprises of nine members appointed by the General Meeting of Shareholders, through which shareholders exercise their rights (the "**General Meeting**") and is responsible for the appointment of the President of the Management Board, the Chief Executive Officer ("**CEO**") and other members of the Management Board. The Supervisory Board is also responsible for the overall supervision of NLB's and the NLB Group's operations in line with EU and Slovenian banking law and other applicable regulations. The Management Board is responsible for the NLB Group and manages NLB's business operations.

### Management Board

NLB's Management Board leads, represents and acts on behalf of the Bank, independently and at its own discretion, as provided for by law and the Bank's Articles of Association. In accordance with the Articles of Association, the Supervisory Board may appoint (and recall) three to six members (a president and up to five members) to the Management Board. The President and members are appointed for a term of five years and may be reappointed or dismissed early in accordance with the law and the Articles of Association.

In 2018 and throughout 2019, the Management Board of the Bank consisted of Blaž Brodnjak (a member since 1 December 2012, Deputy President since 5 February 2016, and President, CEO and Chief Marketing Officer ("**CMO**") since 6 July 2016, with a new five-year term of office as at 6 July 2016); and members Archibald Kremser, acting as Chief Financial Officer ("**CFO**") (since 31 July 2013 and with a new five-year term of office as at 6 July 2016); Andreas Burkhardt acting as Chief Risk Officer ("**CRO**") (since 18

September 2013 and with a new five-year term of office as at 6 July 2016); and László Pelle acting as Chief Operating Officer ("COO") (since 26 October 2016). László Pelle will act as a member of the Management Board until the end of January 2020. A process is in progress to confirm who will be appointed as his successor. The five-year term of office of the President of the Management Board, Blaž Brodnjak, and the members of the Management Board, Archibald Kremser, and Andreas Burkhardt expire on 6 July 2021.

The table below sets out the members of the Management Board of NLB as at the date of this Offering Circular.

| <u>Name, surname and position</u>                        | <u>Immediate responsibility</u>  | <u>Principal activities performed outside NLB</u>                                |
|--|--|--|
| <b>Blaž Brodnjak (CEO and CMO)</b>                       | <ul style="list-style-type: none"> <li>• Strategy and Business Development</li> </ul>  | <b>Chairman of the Supervisory Board:</b>  |
| President of the Management Board (since 6 July 2016)    | <ul style="list-style-type: none"> <li>• Legal and Secretariat</li> <li>• Communication</li> <li>• Human Resources and Organisation Development</li> <li>• Retail, Private Banking and Corporate Banking</li> <li>• Investment Banking and Custody</li> </ul>  | NLB Banka d.d., Sarajevo<br>NLB Banka a.d., Banja Luka<br>NLB Banka a.d., Skopje |
|  |  | <b>Member of the Supervisory Board:</b>  |
|  |  | NLB Vita, Ljubljana  |
|  |  | <b>President of the Supervisory Board:</b>                                       |
|  |  | Association of Banks in Slovenia   |
| <b>Andreas Burkhardt (CRO)</b>                           | <ul style="list-style-type: none"> <li>• Internal Audit</li> <li>• Compliance and Integrity</li> <li>• Risk</li> <li>• Workout</li> <li>• Restructuring</li> </ul>   | <b>Chairman of the Board of Directors:</b>                                       |
| Member of the Management Board (since 18 September 2013) |  | NLB Banka sh.a., Prishtina   |
|  |  | <b>Member of the Supervisory Board:</b>  |
|  |  | NLB Banka d.d., Sarajevo   |
|  |  | NLB Banka a.d., Banja Luka   |
| <b>László Pelle (COO)</b>                                | <ul style="list-style-type: none"> <li>• Innovation and Business Analysis</li> <li>• Development of Information System, Data Management, IT Infrastructure</li> <li>• Payments Processing</li> <li>• Cash Processing</li> <li>• Treasury and Financial Markets Processing</li> <li>• Corporate Banking Processing</li> </ul> | <b>Chairman of the Supervisory Board:</b>  |
| Member of the Management Board (since 26 October 2016)   |  | Bankart d.o.o., Ljubljana  |

| <u>Name, surname and position</u>                   | <u>Immediate responsibility</u>   | <u>Principal activities performed outside NLB</u>     |
|---|---|---|
|   | <ul style="list-style-type: none"> <li>Retail Banking Processing</li> </ul>   |   |
| <b>Archibald Kremser (CFO)</b>                      | <ul style="list-style-type: none"> <li>Controlling</li> </ul>   | <b>Chairman of the Board of Directors:</b>            |
| Member of the Management Board (since 31 July 2013) | <ul style="list-style-type: none"> <li>Financial Accounting</li> <li>Financial Markets</li> <li>Group Real Estate Asset Management</li> <li>Procurement and Corporate Real Estate Management</li> <li>Group Steering</li> </ul> | NLB Banka a.d., Belgrade<br>NLB Banka a.d., Podgorica |

In their capacity as members of the Management Board, the members of the Management Board are all domiciled at the Issuer's registered office.

The key collective decision-making and advisory bodies of the Management Board are:

- the Corporate Credit Committee;
- the Group Assets and Liabilities Committee;
- the Operational Risk Committee;
- the Group Real Estate Asset Management Committee;
- the Sales Board;
- the Change the Bank Committee;
- the Retail Credit Committee;
- the Watch List Committee; and
- the Risk Committee.

The Management Board also appointed the following working bodies that operate at a lower level:

- the Committee for New and Existing Products;
- the Group Real Estate Asset Management Sub-Committee;
- the Committee for Business IT Architecture;
- the Data Management Committee; and
- the Anti-Money Laundering Committee.

### **Supervisory Board**

The Supervisory Board supervises the management of the Bank and its duty of diligent and prudent conduct in line with powers defined in ZGD-1 and supplemented by provisions of the Article 48 of ZBan-2, other regulations, and internal rules of the Bank (the Articles of Association and Rules of Procedures of the Supervisory Board of the Bank).

According to the Bank's Articles of Association, the Supervisory Board is made up of nine members who are appointed and recalled by the General Meeting of the Bank from persons nominated by shareholders or the Supervisory Board of the Bank.

The table below sets out the members of the Supervisory Board of NLB as at the date of this Offering Circular.

| <b>Name, surname and position</b>          | <b>Immediate responsibility</b>   | <b>Principal activities performed outside NLB</b>  |
|--|---|--|
| Primož Karpe, Chairman (2016 – 2020)       | <ul style="list-style-type: none"> <li>Nomination Committee (Chairman)</li> <li>Audit Committee (Member)</li> <li>Operations and IT Committee (Member)</li> </ul>         | <ul style="list-style-type: none"> <li>Angler Ltd., Director</li> <li>Blue Sea Capital SCSp, Luxembourg, Partner (passive - investor)</li> <li>EBRD (IPO Pre-listing programme), US AID (DAI / INVEST project blended finance solutions) and several VC funds (mentoring start-ups, fund raising and placement), Independent contractor</li> </ul> |
| Andreas Kligen, Deputy Chair (2019 – 2023) | <ul style="list-style-type: none"> <li>Nomination Committee (Deputy Chairman)</li> <li>Risk Committee (Chairman)</li> <li>Operations and IT Committee (Member)</li> </ul> | <ul style="list-style-type: none"> <li>NEPI Rockcastle, Independent Non-Executive Director</li> <li>Credit Bank of Moscow, Independent Supervisory Board Member</li> <li>Kyrgyz Investment and Credit Bank, Supervisory Board Member</li> </ul>  |
| Alexander Bayr, Member (2016 – 2020)       | <ul style="list-style-type: none"> <li>Audit Committee (Deputy Chairman)</li> <li>Nomination Committee (Member)</li> <li>Remuneration Committee (Chairman)</li> </ul>     | <ul style="list-style-type: none"> <li>BAWAG PSK, Vienna, Manager of Corporates and Real Estate</li> <li>WKBG Bank, Vienna, member of the Supervisory Board (since 2016)</li> </ul>  |
| David Eric Simon, Member (2016 – 2020)     | <ul style="list-style-type: none"> <li>Audit Committee (Chairman)</li> <li>Risk Committee (Member)</li> </ul>   | <ul style="list-style-type: none"> <li>Jihlavan a.s., President of the Supervisory Board</li> <li>Czech Aerospace industries sro, legal representative</li> <li>Central Europe Industry Partners a.s., sole member of the Supervisory Board</li> </ul>   |

| <b>Name, surname and position</b>                | <b>Immediate responsibility</b>  | <b>Principal activities performed outside NLB</b>  |
|--|--|--|
| László Urbán, Member (2016 – 2020)               | <ul style="list-style-type: none"> <li>• Risk Committee (Deputy Chairman)</li> <li>• Remuneration Committee (Deputy Chairman)</li> <li>• Operations and IT Committee (Member)</li> </ul> | <ul style="list-style-type: none"> <li>• none</li> </ul>   |
| Peter Groznik, Member (2017 – 2021)              | <ul style="list-style-type: none"> <li>• Nomination Committee (Member)</li> <li>• Risk Committee (Member)</li> </ul>   | <ul style="list-style-type: none"> <li>• MSIN d.o.o., Ljubljana, Director</li> <li>• CETIS d.d. President of the Supervisory Board</li> </ul>  |
| Shrenik Dhirajlal Davda, Member (2019 – 2023)    | <ul style="list-style-type: none"> <li>• Remuneration Committee (Member)</li> <li>• Audit Committee (Member)</li> <li>• Operations and IT Committee (Deputy Chairman)</li> </ul>         | <ul style="list-style-type: none"> <li>• NECP LLP. London, UK, Partner</li> <li>• Ukgasbank. Kyiv, Ukraine, Chairman of the Supervisory Board</li> </ul>   |
| Mark William Lane Richards, Member (2019 – 2023) | <ul style="list-style-type: none"> <li>• Nomination Committee (Member)</li> <li>• Risk Committee (Member)</li> <li>• Operations and IT Committee (Chairman)</li> </ul>                   | <ul style="list-style-type: none"> <li>• CIB Bank Egypt, Non-Executive Director, and Chair of the Risk Committee</li> <li>• Sheffield Haworth Ltd, Non-Executive Director</li> <li>• Vencap International, Non-Executive Director</li> </ul> |
| Gregor Rok Kastelic, Member (2019 – 2023)        | <ul style="list-style-type: none"> <li>• Remuneration Committee (Member)</li> <li>• Audit Committee (Member)</li> </ul>  | <ul style="list-style-type: none"> <li>• Corporate Finance, ING Bank, London, Managing Director, Head of Emerging Europe</li> </ul>  |

In their capacity as members of the Supervisory Board, the members of the Supervisory Board are all domiciled at the Issuer's registered office.

The key collective decision-making and advisory bodies of the Supervisory Board are:

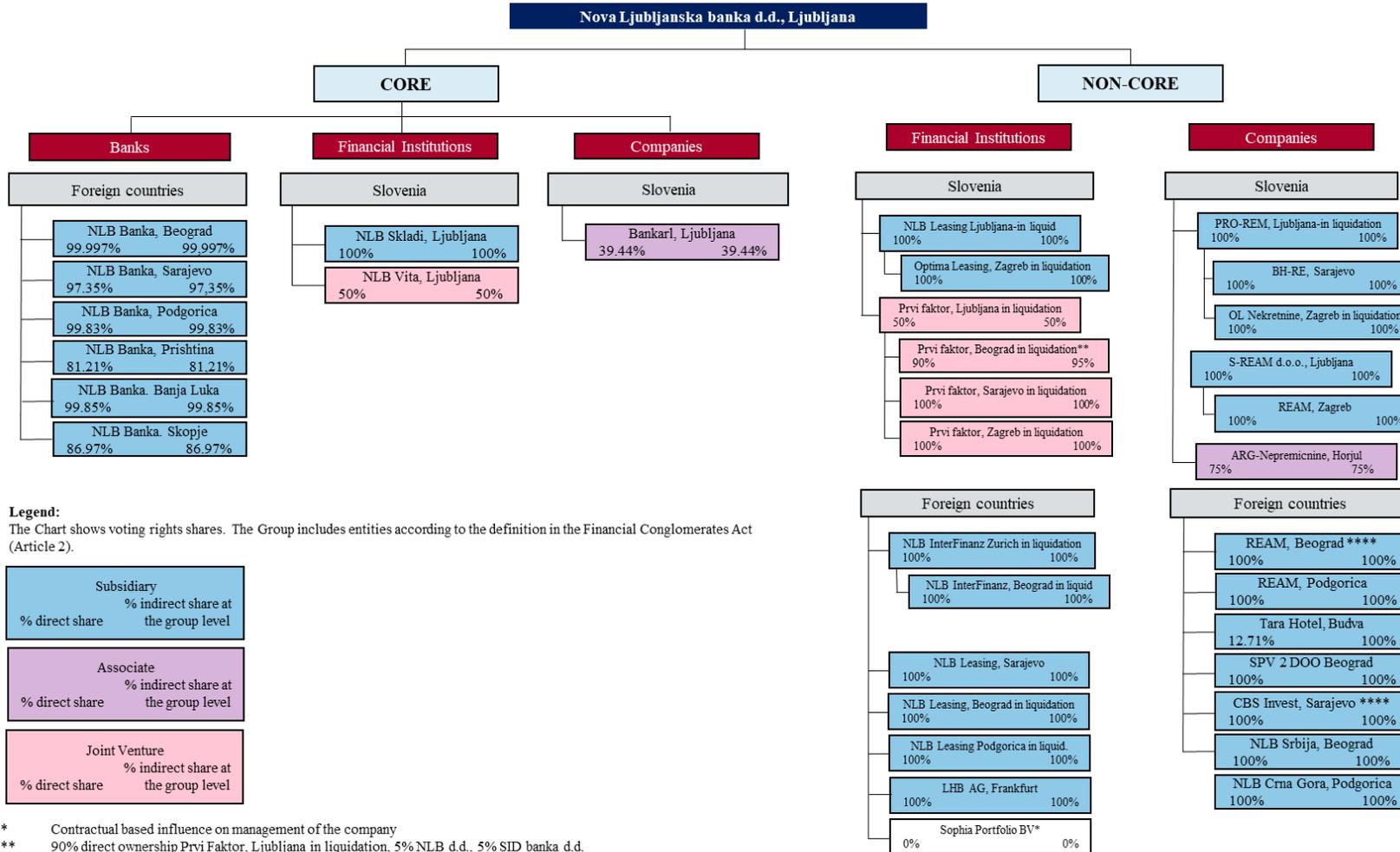
- the Audit Committee;
- the Risk Committee;
- the Nomination Committee;
- the Remuneration Committee; and
- the Operations and Information Technology Committee.

## **CONFLICTS OF INTEREST**

The Issuer is not aware of any actual or potential conflicts that are significant with respect to the duties owed to it by the members of its Management Board or Supervisory Board and their private interests and other duties or activities performed by the members of the Management Board or the Supervisory Board outside the Issuer.

## ORGANISATIONAL STRUCTURE

The following diagram presents an overview of the organisational structure of the NLB Group as at 30 June 2019:



## CORPORATE GOVERNANCE - NLB GROUP

As the parent bank, NLB implements corporate governance of the NLB Group members in compliance with EU and Republic of Slovenia legislation, local legislation, and regulatory requirements applicable to respective Group members, while also considering internal rules, the commitments made to the EC and other applicable regulations.

The roles, authorisations and responsibilities of individual bodies and organisational units, as well as how to coordinate their operations to achieve set business goals are stipulated comprehensively in the NLB Group Corporate Governance Policy.

The NLB Group's corporate governance is implemented:

- (i) in accordance with fundamental corporate rules through various bodies of NLB Group members:
  - by voting at the general meetings of NLB Group members;
  - with proposals for appointing the management of NLB Group members;
  - with proposals for appointing NLB's representatives to supervisory bodies;
  - by exercising supervision through the supervisory bodies of the NLB Group members;
  - through the participation of NLB's representatives in various committees and commissions of NLB Group companies.
- (ii) by mechanisms providing efficient business control in all business lines, harmonisation of the operating standards, and exchange of information between NLB Group members according to the competence line principle whereby, the establishment of competencies is expected to take place in all key areas of business operations and other functional areas at the level of the NLB Group which are necessary for the harmonisation or standardisation of business operations and result in synergies in the NLB Group as a whole.
- (iii) by additional supervision of the Group members by Internal Audit of the Bank and Compliance and Integrity of the Bank, as well as external supervisors (e.g. the ECB, the Bank of Slovenia, external auditors, and local regulators).

In recent years the concept of corporate governance of the Group has been upgraded, and the role of members of the Management Board of the Bank and management of the Group members strengthened. The target composition of supervisory bodies in the Group members was established, the functioning of the supervisory bodies optimised, and the reporting and standards related to the harmonisation of operations simplified.

## INDEPENDENT AUDITORS

Ernst & Young d.o.o. ("**Ernst & Young**"), Dunajska cesta 111, SI 1000, Ljubljana was appointed NLB's auditor for 2018 by the General Meeting of Shareholders. Ernst & Young d.o.o. is a registered audit firm at The Slovenian Institute of Auditors and audited the Issuer's consolidated and non-consolidated financial statements as of 31 December 2018 and 31 December 2017, incorporated by reference herein. Ernst & Young is the appointed auditor of the Bank also for the business years 2019, 2020, 2021, and 2022. NLB's independent auditor has been Ernst & Young since 2013. The unaudited condensed interim financial statements of NLB Group have been prepared in accordance with IAS 34, Interim Financial Reporting as adopted by the European Union.

## INTERNAL AUDIT

Internal Audit reviews key risks in the Group's operations, advises management at all levels and deepens understanding of the Bank's operations. NLB, through its Internal Audit, seeks to adequately monitor key risks which might jeopardise the achievement of its strategy and goals, related control systems and governance processes and consequently helps to strengthen and protect the value of the NLB Group. Internal Audit directly reports on its activities primarily to the Supervisory Board and to the latter's Audit Committee and secondarily to the Management Board. By providing assurances and advice, and with a

deep understanding of operations, Internal Audit helps to strengthen and protect the value of the NLB Group. The best practice examples and international guidelines established by the Committee of Sponsoring Organisations of the Treadway Commission are the criteria Internal Audit uses to cover all control objectives and risk management.

Internal Audit is the independent, objective and advisory control body responsible for a systematic and professional assessment of the effectiveness of risk management procedures, completeness, adequacy and functionality of internal control systems, and the management of the Group operations on an ongoing basis. In 2019 Internal Audit provided impartial assurance to the Supervisory Board, Audit Committee and Management Board on the management of risks in key areas, i.e. cyber security, data management, ICAAP, credit risk management, vault operation, cash management, IT development and IT projects, provisioning, non-performing loan management, several credit processes, business continuity and others. Internal Audit also performs "Group audits" in which internal auditors of the NLB Group members participate in order to provide assurance at the NLB Group level, as well as to provide additional expertise and assistance. Furthermore, a review of the quality of the internal audit service performance was carried out over a two-year cycle on all six banking members of the NLB Group.

The Internal Audit and all other internal audit departments in the NLB Group work in accordance with International Standards for the Professional Practice of Internal Auditing, the Banking Act or other relevant laws which regulate the operations of a Group member, the Code of Ethics of an Internal Auditor, and the Code of Internal Auditing Principles. It regularly reports on its activities to the Supervisory Board, Audit Committee and the Management Board.

Internal Audit performs its tasks and responsibilities on its own discretion and in compliance with the annual audit plan as approved by the Management Board and confirmed by the Supervisory Board. Internal Audit also introduces uniform rules of operation of internal audit function and regularly monitors the compliance with these rules within the Group.

## HUMAN RESOURCE MANAGEMENT

The Bank's human resource policy covers the employment, development, education and training, motivation, evaluation and remuneration of employees.

The following table shows the number of employees in the NLB Group and NLB as at 31 December 2017 and 31 December 2018.

|                    | NLB Group         |              | NLB          |              |
|--------------------|-------------------|--------------|--------------|--------------|
|                    | As at 31 December |              |              |              |
|                    | 2017              | 2018         | 2017         | 2018         |
|                    | <i>(numbers)</i>  |              |              |              |
| Employees.....     | 6,029             | 5,887        | 2,789        | 2,690        |
| <b>Total</b> ..... | <b>6,029</b>      | <b>5,887</b> | <b>2,789</b> | <b>2,690</b> |

The following table shows number of employees in NLB Group and NLB as at 30 June 2018 and 30 June 2019.

|                    | NLB Group        |              | NLB          |              |
|--------------------|------------------|--------------|--------------|--------------|
|                    | As at 30 June    |              |              |              |
|                    | 2018             | 2019         | 2018         | 2019         |
|                    | <i>(numbers)</i> |              |              |              |
| Employees.....     | 5,956            | 5,823        | 2,746        | 2,659        |
| <b>Total</b> ..... | <b>5,956</b>     | <b>5,823</b> | <b>2,746</b> | <b>2,659</b> |

In recent years the Group undertook efforts to gradually optimise and right-size its staffing level to align with the Group's current organisational structure. In the period from 31 December 2013 to 30 June 2019, the Group reduced the number of employees by 15.8 per cent. (1,089 employees, 764 in the Bank alone) and concluded several major reorganisations. This reduction in the number of employees was primarily driven by Slovenian entities. Further to this human resource strategy, the Group's business needs were

profoundly analysed and workforce planning schemes formed. Accordingly, competency development plans and talent career plans were formed throughout the Group, aiming to support future business needs.

## **INFORMATION TECHNOLOGY, PROCESS MANAGEMENT AND OPERATIONS**

The NLB Group's management considers technology to be important for the NLB Group's future success in achieving its key strategic priorities. As a result, the NLB Group has prepared an IT development strategy which aims to complement business initiatives of the NLB Group strategy.

### ***IT infrastructure and reliability***

IT performance is monitored through a set of relevant key performance indicators that are linked to the Balanced Scorecard system. The indicators show the high performance of IT operation and successful risk management in this area. The availability of the information system is provided at a very high level (99.9 per cent.), and the share of unplanned interruptions is very low (0.04 per cent.). With users of the information system, harmonised Service Level Agreements are in place, which the Bank managed to fulfil in a very high proportion. The satisfaction of IT users is regularly monitored, and the Customer Satisfaction Index for internal users is 83 per cent. and for external users is 93 per cent.

### ***Main IT initiatives***

In 2018, the Bank mostly focused on procurement and implementation planning for strategic platforms as a part of the technology transformation initiative. The Bank has contracted market-leading providers for the implementation of a comprehensive data management platform, hybrid integration platform, as well as a digital banking platform. In 2019 new digital banking platform and integration platforms were deployed to support PSD2 regulatory compliance regarding payments and account information aggregation. The Bank will continue investing in these technologies and capabilities to support the business strategy and to achieve superior client experience in terms of quality, innovation, reliability and security. The technology transformation also involves investments in operational efficiency through the integration of back-end systems, which are currently in the strategy planning phase.

In addition to the transformation initiative, the Bank has delivered some major improvements in its mobile banking offering, in addition to the existing fully mobile end-to-end loan origination process for private individuals and small enterprises. The Bank has been the market front-runner in the introduction of mobile payments with NLB Pay. The Bank continuously responding to regulatory and business driven demands, among them several payment system initiatives, improvements in pricing, credit risk management and lending automation.

With respect to IT infrastructure, NLB is modernising, standardising and consolidating key infrastructure elements, server farms, storage, back-up systems and networking equipment, aiming to build up reliable and secure platforms while ensuring cost efficiency.

The technology transformation of the Group follows the principles of open architecture, architecture intended to make adding, upgrading and swapping components easy. Hence, all the subsidiaries of the Group are investing in providing standardised access to their core systems which will enhance their integration and innovation capabilities. The Bank has identified important synergies in centralising regional IT governance, including the sourcing and procurement practices.

### ***Cyber security***

The Group is dedicating special attention to cyber security, and consequently assuring confidentiality, integrity, and availability of data, information and IT systems that support banking services and products for customers. Cyber security in the Group is constantly tested and upgraded by applications, network and IT infrastructure security assessments, independent reviews and penetration testing. Cyber security is regularly discussed at the Bank's Information Security Steering Committee and Management Board meetings. In 2018, the Security Operations Centre was set up in the Group to monitor security events, detect anomalous behaviour in information systems, and enable swift incident response if needed. In 2018, no cyber security incidents occurred that had an impact on customer services or IT processing.

All employees in the Group are also being continually educated about the importance of cyber security. The Group banks are providing employees and customers with security notifications, especially concerning the occurrence of threats in the (global) environment with potential impact on the banks' IT systems

services, and products. The Bank is also testing the awareness of its employees with social engineering attack simulations.

### ***ECB Inspection***

In 2019 the ECB conducted a comprehensive on-site inspection of IT in the NLB Group. It focused on areas including data quality management, IT continuity management, IT operations management, IT organisation and outsourcing, IT risk management, IT security management, organisational framework, strategy, policies, procedures and system architecture. The findings of the inspection were presented to the Bank in September 2019. The Issuer does not consider the findings to have a material impact on its business, and the Issuer continues to work to implement the recommendations of the ECB as quickly as possible. Some of the costs of implementing such recommendations have already been budgeted for, however, it is possible that further capital expenditure could be required in respect of such implementation.

### **COMPLIANCE**

NLB's compliance and integrity programme is managed by the Compliance and Integrity organisational unit in NLB ("**Compliance and Integrity**"), through a three-pillar structure: (i) regulatory compliance and integrity; (ii) supervision and internal investigations; and (iii) anti-money laundering ("**AML**") and counter-terrorism financing ("**CFT**") protocols.

The Compliance and Integrity addresses, the following risk areas:

- fraud prevention and investigation;
- AML and CFT;
- personal data protection (DPO) and information security (CISO);
- regulatory compliance;
- corruption prevention;
- conflict of interests, gifts and hospitality management;
- fit and proper assessment procedures (as part of assessing reputation, financial strength, time availability and conflict of interests);
- identification, enterprise wide assessment and management of compliance and integrity risks at the NLB and NLB Group level;
- oversight, monitoring, steering and managing the compliance function in the NLB Group and the NLB Group compliance programme (established by standards for compliance and integrity for the NLB Group and implementation of monitoring by off-site data analysis and on-site visits); and
- business ethics and corporate integrity.

Compliance and Integrity performs the compliance function in NLB with respect to the activities for identification and monitoring of compliance risks, regular compliance monitoring and independent internal investigations in case of suspected compliance or ethics breaches. In close cooperation with different organisational units, Compliance and Integrity also helps in assessing and managing compliance risks in different areas of operations in NLB. Compliance and Integrity reports quarterly to the Supervisory and Management Boards. It also reports on individual compliance issues at the request of the Supervisory or Management Board or when such reports may be otherwise needed. It also advises the Management Board and NLB senior management with regards to compliance, including the development of regulations and standards applicable to NLB. It also responds to queries from other employees regarding compliance and ethics.

The main activities of Compliance and Integrity are:

- conducting compliance checks at various areas covered by Compliance and Integrity (compliance audits), identification of shortcomings in this regard, suggestion of mitigation measures to be undertaken and monitoring of improvement;
- managing the system/channels for reporting of suspected harmful behaviour (directing the system for reporting on violations through different channels) and conducting internal investigations of the reported and detected cases;
- providing advisory services on compliance-related issues and regular analysis of compliance trends or observed problems and weaknesses in NLB;
- identifying and assessing compliance and integrity risks in the process of (new) product and service developments, projects and other material changes in the NLB Group's business;
- providing compliance communication, training, workshops and targeted surveys for all NLB employees, together with its Board members;
- overseeing the regulatory compliance management system (monitoring, reporting and adopting changes required in NLB's legal environment);
- central management and monitoring of all communication with regulators and monitoring of the status of implementation of regulators' recommendations and measures; and
- ensuring implementation of harmonised policies and procedures for compliance and integrity area throughout the NLB Group, following the principle of proportionality and risk-based approach.

In the AML and CFT and restrictive measures area, based on the identified risks of money laundering and terrorist financing, NLB focuses on the following risks: risk of breaching regulatory requirements in the area of AML or CFT and restrictive measures, the risk of money laundering and terrorism financing through the NLB or the NLB Group financial system, the risk of inadequate implementation of restrictive measures or the international sanctions screening system and the risk of damaging the reputation of NLB and the NLB Group due to insufficient implementation of the abovementioned standards and requirements.

International institutions such as the FATF have issued several documents in the field of AML and CFT, which represent worldwide standards. In 2015, the new AML EU Directive, Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, was adopted by the European Parliament and in the second half of 2016 the Republic of Slovenia adopted new local AML legislation. New directives in the area of sanctions and restrictive measures were also issued (e.g. sanctions against Russia and Ukraine with an emphasis on Crimea and changes in sanctions against Iran). Several EU and United States banking groups were fined for breaching sanctions; these groups subsequently introduced completely new standards and severe requirements in the international banking area in the field of controls on restrictive measures. In the period from 2010 to 2019, NLB had five external audits from the Bank of Slovenia, which issued several orders and recommendations to the Bank, which were duly fulfilled and implemented or are in the process of implementation.

NLB has taken a number of important measures to mitigate and reduce risks related to AML and CFT, including:

- introduction of new processes and IT solutions to deal with unusual and suspicious transactions and to process ongoing monitoring of business relationships. One important measure was the establishment of a central process for the treatment of suspicious transactions, which significantly raised the quality of the results;
- publication of new AML and CFT policies of acceptance level for high-risk clients and establishment of the commission for the prevention of money laundering within NLB, that regularly examines cases of suspicion and makes decisions on closing business relationships that exceed the acceptable level of risk;

- an important upgrade of internal controls: (i) at the level of application support (automatic control system), (ii) at the level of organisational units (establishment of the AML coordinators' system), and (iii) through implementation of thematic, regular and comprehensive AML and CFT reviews by a designated AML officer;
- implementation of enhanced customer due diligence in the area of cash operations and operations with high-risk countries, especially in terms of checking and disclosing the source of funds and assets;
- establishment of new methodologies and techniques in the disclosure of beneficial owners;
- prohibitions on opening a business relationship with entities located in high-risk countries with poor standards related to terrorist financing;
- upgrade of the uniform screening system and process of defined controls regarding restrictive measures and sanction lists (Dow Jones Watchlist and Safe Watch Filtering Screening System), adhering to United Nations, EU, the United States' The Office of Foreign Assets Control and the United Kingdom's Her Majesty's Treasury protocols and controls; and
- regular introduction of new AML and CFT typologies and upgraded AML and CFT scenarios into the suspicious transactions, businesses and clients monitoring and analysing system ("**SironAML IT Solution**").

In the NLB Group the following measures were implemented:

- obligatory introduction of standards to the NLB Group with a focus on bank subsidiaries that are highly vulnerable in the field of AML and CFT;
- carrying out regular checks in order to achieve uniform standards within the NLB Group;
- introduction of "offsite" control activities in the NLB Group on the basis of reports, questionnaires and assessment of the risk for individual banks;
- carrying out regular "on site" in-depth reviews within the NLB Group;
- implementation and regular upgrading of IT support (SironAML IT Solution: a modern anti-money laundering solution that monitors customer transactions using predefined indicators and scenarios, historical and statistical information, peer group profiles in order to identify money laundering activities, and also a system which supports case management workflow for AML officers for the purposes of handling unusual transactions and suspicious activities reports) and re-engineering of the work process in order to harmonise the concept of monitoring unusual transactions at the NLB Group level, improving work efficiency and significantly reducing risks in the treatment of unusual transactions and the reporting of suspicious transactions to the Office for Money Laundering Prevention;
- prohibition on opening a business relationship with entities located in high-risk countries that have poor standards related to terrorist financing;
- restriction and conducting in-depth reviews of non-resident clients which do not have economic and logical bases for entering into business relationships - with such clients an increased risk for money laundering was identified in the last year; and
- prohibited business with countries and regimes which are, according to international banking standards, listed as high-risk (including Iran, North Korea, Sudan and South Sudan, Myanmar, Afghanistan, Cuba and Crimea); and
- implementation and upgrade of the screening system and process of internal controls regarding restrictive measures, sanction lists and domestic politically exposed persons.

To ensure compliance with international and legislative requirements, NLB established a system to identify and prevent money laundering and financing terrorism and took important measures to mitigate and reduce risks related to AML and CFT, including:

- an efficient organisational structure, delegation of responsibilities and responsible persons for AML and CFT in the management of the NLB Group, responsible persons and their deputies to conduct activities in this area, a system of coordinators in the business areas of the bank, and responsibilities and accountability of individual business areas of the bank;
- an established system of internal controls with adequate procedures and internal procedures;
- the yearly training of all employees who are responsible for conducting activities in the AML and CFT area; and
- an independent of internal audit function.

In 2017, NLB was subject to extensive media exposure related to the Iran Case. In 2017 and 2018, this case was also subject to a parliamentary investigation where a special Parliamentary Commission was established in order to investigate an alleged AML breach (*Preiskovalna komisija o ugotavljanju domnevnega pranja denarja in financiranja terorizma, jedrske proliferacije ter financiranja aktivnosti tujih obveščevalno-varnostnih služb v NLB d.d. ter domnevnega pranja denarja v Novi KBM d.d.*). The Parliamentary Commission concluded its work in May 2018. Part of the final report of the Parliamentary Commission has been published publicly, with portions of the report still restricted, including from NLB. Based on publicly available information, the Parliamentary Commission has not found any signs of criminal offences or breach of AML legislation in the case. However, the report contains findings that the former Management and Supervisory Boards of NLB (no member of which are in office since 2011) breached their duties. Furthermore, there were criminal charges filed against two former employees of NLB for false testimony during the hearing before the Parliamentary Commission, and former governmental representatives and the former representative of the Bank of Slovenia were found to have political responsibility in this case. As of the date of this Offering Circular, NLB is not aware of any proceedings regarding this case against NLB or its current employees with respect to the above investigation, or regarding the final findings of the authorities or the Parliamentary Commission mandated to investigate this case. According to Slovenian legislation any civil motion has been time barred in accordance with the general statute of limitations of five years.

The Federal Banking Agency, as the banking regulator for Federation of Bosnia and Herzegovina, conducts routine AML review of NLB Banka Sarajevo. In the most recent preliminary report of the Federal Banking Agency, received on 21 October 2019, there are four findings of deficiencies in NLB Banka Sarajevo's AML processes. The Issuer does not consider the scope or nature of any of these findings to be material. Furthermore, NLB Banka Sarajevo intends to submit a response to rebut the findings of the draft report. A final report is expected from the Federal Banking Agency in due course and NLB Banka Sarajevo will determine and complete any required actions thereafter.

NLB complies with legislation and international standards in the AML and CFT area. NLB monitors business activities undertaken by customers through the Bank with due diligence and thus ensures knowledge of its customers, including the origins of assets and wealth. Monitoring includes verification of the customer's business operations, compliance with the activity, purpose and intended nature of the business relationship, monitoring and verification of the customer's business operations, compliance with its regular scope of business and verification and updating documents and data on a customer. Given the number of customers and the scope and complexity of banking services, the NLB Group has introduced appropriate IT support and uses transaction monitoring systems purchased from FICO Tonbeller. Based on enterprise risk assessment, NLB ranks the risk of all of its clients based on a prepared risk analysis and risk assessments for individual groups or customers, business relationships, products or transactions with respect to their potential misuse for money laundering or terrorism financing.

#### ***Other changes due to listing of shares and GDRs on the Ljubljana and London Stock Exchanges***

Certain additional requirements apply as a result of the fact that the Bank's shares are listed on the Prime Market of the Ljubljana Stock Exchange, such as financial reporting requirements in accordance with IFRS, the publication of information in English, the publication of quarterly statements, the publication of a statement of compliance with the Slovenian Corporate Governance Code for Public Companies and the

publication of a financial calendar. The fact that the GDRs are admitted to listing on the Official List of the FCA and to trading on the Main Market for listed securities of the London Stock Exchange gives rise to the application of provisions of the FCA's Listing Rules and Disclosure Guidance and Transparency Rules relating to methods of publication of regulated information which apply to issuers of securities listed in the United Kingdom ("UK") regardless of their home member state.

Related to the rules on transparency, the requirements in relation to the disclosure of periodic and ongoing information regarding issuers whose securities are admitted to trading on a regulated market situated or operating within the EU (i.e. Public Companies) are set out in Directive 2004/109/EC (the "**Transparency Directive**") and the national legislation implementing the Transparency Directive. The Bank is required to observe primarily provisions of Slovenian law relating to the disclosure of periodic and ongoing information by the Bank, as well as those transparency rules in the UK that apply to the GDRs that are listed on the London Stock Exchange.

### ***Information security and personal data protection***

The information security teams are *inter alia* focused on upgrading the Bank's Security Operations Centre to the level of the NLB Group member banks, to ensure group-wide activities are operationally in place 24/7, through close cooperation of IT experts within the NLB Group. As part of prevention measures in this area, several internal assessments and compliance checks were made on the basis of ISO 27001, including related to external service providers (i.e. personal data processors and external software providers) and tests regarding the awareness of social engineering.

In line with the General Data Protection Regulation (EU) 2016/679 and following further developments in the personal data protection area, the Bank has in place the necessary forms and templates, as well as procedures and internal acts to ensure that all measures necessary were put in place, in line with the new requirements. Standards in this area are also implemented in NLB Group members, taking also into account local regulatory requirements.

### **MATERIAL CONTRACTS**

There are no material contracts that are not entered into in the ordinary course of the issuer's business, which could result in any group member being under an obligation or entitlement that is material to the issuer's ability to meet its obligations to noteholders in respect of the notes being issued.

### **RECENT DEVELOPMENTS**

On 20 August 2019, the Bank announced that both owners of NLB Vita insurance company (NLB and KBC Insurance NV), are currently investigating the possibility of a joint process to divest their shareholdings in NLB Vita. The divestment by NLB is part of an additional commitment given to the EC as a result of the extended due date for the sale of the required equity stake of the Republic of Slovenia in NLB. Currently, both owners cooperate in a joint divestment project; the sales process is in the non-binding phase.

On 6 September 2019, the Supervisory Board of NLB met at its 57<sup>th</sup> meeting to discuss NLB Group operations in the first six months of the year. The Board took note of the key elements of the new NLB Group strategy and approved the establishment of a new leasing company.

On 9 September 2019, NLB received a notification of major holdings by Schroders plc., London. Schroders purchased an additional 15,210 shares, which means that they now own more than 5 per cent. of all shares in the company (5.048 per cent. of per cent. of voting rights through financial instruments).

On 20 September 2019, NLB entered a bilateral agreement to raise EUR 45 million of subordinated Tier 2 debt to strengthen and optimise the NLB Group's capital structure.

### **LEGAL AND ADMINISTRATIVE PROCEEDINGS**

#### **General**

As at 30 September 2019, NLB was involved in seventeen legal disputes with monetary claims against NLB exceeding EUR 1 million per case (excluding accrued interest). The total amount of these claims, excluding accrued interest, was EUR 176.9 million. As at 30 September 2019, the NLB Group was involved

in 31 legal disputes with monetary claims against NLB Group members exceeding EUR 1 million per case, excluding accrued interest, in the aggregate principal amount of EUR 340.5 million. NLB has established provisions in its financial statements for some of these proceedings in which it is involved based on an assessment of the possible outcome of the proceedings, and such provisions with respect to claims exceeding EUR 1 million per case amount to EUR 1.8 million and EUR 4.5 million at the NLB and the NLB Group level, respectively, as at 30 September 2019.

### **Claims relating to liabilities in respect of transferred deposits**

NLB is currently involved in proceedings whereby the plaintiffs claim that NLB is responsible for the liabilities relating to the foreign currency deposits held with Ljubljanska banka, Zagreb Branch. Ljubljanska banka, Zagreb Branch is the Croatian branch of Ljubljanska banka, which in turn is an entity from which NLB received certain assets and liabilities when NLB was established in 1994 (as discussed below).

Two Croatian banks, Privredna banka Zagreb and Zagrebačka banka, filed claims against Ljubljanska banka and NLB, as the alleged co-debtor, in the Croatian courts in relation to transferred deposits. The proceedings were filed during the period from 1994 to 1996. The aggregate principal amount of the claims against NLB as per 31 December 2018 is equivalent to EUR 168.5 million (calculated at the exchange rates applicable on 31 December 2018), excluding any default interest. Due to the fact that the proceedings have been pending for a significant period of time, the default interest exceeds the principal amount of the transferred deposits.

NLB denies all liability in respect of the transferred deposits for a number of reasons, including, amongst others, that NLB has never assumed the obligations of Ljubljanska banka, Zagreb Branch under the transferred deposits, that the proceedings in the courts of Croatia are in violation of an agreement on succession between the successor states of the SFRY made in Vienna on 29 June 2001 and that it also violates a memorandum of understanding between the governments of Slovenia and Croatia concluded in March 2013 (the "Memorandum of Understanding"), pursuant to which the Republic of Croatia assumed an obligation to ensure the stay of all the proceedings commenced by the Privredna banka Zagreb and Zagrebačka banka in relation to the transferred deposit until the issue was finally resolved between the two countries.

Despite the Memorandum of Understanding, the courts of Croatia ruled six claims in favour of the plaintiff. In three of those cases, NLB filed a constitutional complaint (which was in one case rejected by the Constitutional Court of the Republic of Croatia) and in three an extraordinary legal measures with the Supreme Court of the Republic of Croatia. In one case a claim against NLB, filed by the PBZ, was rejected, including a dismissal by the Supreme Court of the Republic of Croatia.

In the other eight cases, with respect to which court procedures described above are pending, final court decisions have not yet been issued.

NLB Shareholders' Meeting provided the Management Board of NLB with instructions how to act in the event of existing or potential new final decisions by Croatian courts against LB and NLB regarding the transferred foreign currency deposits, and especially not to voluntarily settle the adjudicated amounts, and also gave some additional instructions on the usage of legal remedies and regarding the management of the property from that perspective.

On 19 July 2018 the National Assembly passed the ZVKNNLB, which entered into force on 14 August 2018. In accordance with the ZVKNNLB, the Fund shall compensate NLB for the sums recovered from NLB by enforcement of final judgments delivered by Croatian courts with regard to the transferred deposits (that is the principal amount, accrued interest, expenses of court, legal fees and other expenses of the plaintiff and expenses related to enforcement with the accrued interest). The Fund shall compensate NLB for the negative financial implications within 30 days after having received notice from NLB that the enforcement has taken place and after the relevant evidence has been presented. If the payment due exceeds the value of the Fund's special-purpose budget or if it could jeopardise the payment of the Fund's other liabilities and obligations payable from the Fund's special-purpose budget, the due date shall be extended by as long as deemed necessary for the Republic of Slovenia to provide an increase of the Fund's special-purpose budget, but by no more than 60 days. Should the Fund fail to settle its obligations in 30 days for the reasons stated in the immediately preceding sentence, the Republic of Slovenia as its founder shall be liable, in addition to the Fund being liable, for the obligations of the Fund and shall to this end increase the special-purpose budget of the Fund so that the Fund can settle its obligation to NLB in the extended time

period. The Fund shall compensate NLB only for the amounts recovered from NLB by enforcement and shall not compensate NLB for its own costs or for the difference between the book value of its assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings.

The Fund is also not obliged to compensate NLB for any payments made by NLB voluntarily, provided that a payment made by NLB on the basis of a request or decision of a competent regulator is not considered voluntary.

In accordance with the ZVKNNLB and pursuant to an agreement between NLB and the Fund relating to the implementation of the ZVKNNLB (the "**Agreement with the Fund**"), NLB has to contest the claims made against it in court proceedings in relation to the transferred deposits and use all reasonable legal remedies against court decisions that are disadvantageous for NLB, including those which were already enforced against it and take other lawful steps which may prevent or minimise the risk of enforcement of such court decisions.

In accordance with the ZVKNNLB, NLB shall regularly consult the High Representative of the Republic of Slovenia for Succession Issues (*Visoki predstavnik Republike Slovenije za nasledstvo*) regarding the legal procedures and legal remedies and regarding the contesting of judicial decisions and shall, in particular, obtain his opinion before filing new legal remedies. Should NLB breach its obligation to inform and consult with the High Representative of the Republic of Slovenia for Succession or later takes actions that are different from the ones proposed to, and agreed by, the High Representative of the Republic of Slovenia for Succession Issues, for example by failing to file a legal remedy against a court decision, it shall be obliged to reimburse the Fund within 30 days from receipt of the Fund's request, for all the funds it has received in connection with the enforcement of such court decision, including the default interest accrued since the day NLB received the funds.

In addition, if after the date of the Agreement with the Fund, NLB voluntarily makes a payment in satisfaction of a judicial decision by a court of the Republic of Croatia relating to the transferred deposits, NLB will be obliged to repay to the Fund all sums received from the Fund.

In accordance with the ZVKNNLB and the Agreement with the Fund, NLB requested and received a reimbursement from the Fund of the enforced amount from the first negative final judgment from May 2015 in the amount of EUR 3,461.31.

NLB is considering all options available to protect its interests in the belief that, in accordance with the Constitutional Act and international agreements, the obligations in question are not the obligations of NLB. Provisions for any of these claims have not been recorded because NLB believes that there are no legal grounds for such claims. Additionally, on the basis of the ZVKNNLB, subject to compliance with certain obligations, NLB is expected to be compensated for the sums recovered from NLB by enforcement of final judgments delivered by Croatian courts, which should provide an effective risk transfer. However, an unfavourable outcome in any of these pending proceedings may have a negative financial impact on NLB. (See - "*Risk Factors - A failure by NLB to comply with its obligations under ZVKNNLB and the related agreement with the Fund would deprive NLB of the protection granted to it by ZVKNNLB*").

### **Proceedings relating to the Bank of Slovenia Decision**

In relation to the decision of the Slovenian government for the Republic of Slovenia to participate in the capital increases of NLB in 2011 and 2012, the EC initiated a procedure to determine the compatibility of this participation with the EU state aid rules. In accordance with recommendations of the European Council published in June 2013, NLB (along with the majority of other Slovenian banks) underwent the AQR and "bottom up" stress tests. In December 2013, the results of the AQR and stress test exercise revealed a capital shortfall for NLB of EUR 1,904 million. As a result, several measures were taken, aimed at ensuring the capital adequacy of NLB and the NLB Group, including, amongst other measures, termination of all of the Qualified Liabilities by way of the Bail-In pursuant to the Bank of Slovenia Decision.

Pursuant to ZBan-1, the only remedy available to Affected Investors is to claim compensation from the Bank of Slovenia. The Constitutional Court conducted the constitutional review of the provisions of ZBan-1 that provided the grounds for the Bank of Slovenia Decision. On 19 October 2016, the Constitutional Court deemed the provisions of ZBan-1 that govern the Bail-In as constitutional, including the provision which excluded the right of the Affected Investors to claim damages or use any contractual remedy against NLB. However, the Constitutional Court further determined that the provisions relating to the claims

against the Bank of Slovenia failed to provide an effective remedy and were therefore unconstitutional and ordered the National Assembly to amend the legislation before 19 April 2017 such that it will, amongst others, take into account the inequality in access to information and evidence between the Bank of Slovenia and the Affected Investors and ruled that all court proceedings in which the Affected Investors claim compensation from the Bank of Slovenia shall be suspended until the said unconstitutionality is removed. The legislative proposal for an act intended to address such unconstitutionality (ZPSVIKOB) has been passed by the National Assembly on 22 October 2019 but was later vetoed by the State Council (Državni svet). If the repeated vote by the National Assembly does not succeed, the process of passing the necessary legislation may be further protracted.

Nevertheless, in December 2016, certain Affected Investors publicly announced that they initiated proceedings against NLB in which they are claiming compensation for the losses they incurred as a result of the Bail-In.

The claims made by the plaintiffs are based on various allegations, including misrepresentations made by NLB in the context of the public offering of the subordinated notes, failure to disclose the conflict of interest and failure to contest the Bank of Slovenia Decision, amongst others. Some plaintiffs have not specified the grounds for their claims.

As of the date of this Offering Circular, all these proceedings except for one are suspended until the preliminary issue whether or not any compensation will be payable to the Affected Investors by the Bank of Slovenia is resolved. In the only case which was not suspended, the court of the first instance rejected the claim against NLB in a judgment dated 7 May 2019. The plaintiff appealed against such judgment and the decision on appeal is pending.

As of 30 September 2019 the aggregate amount of these claims received by NLB was EUR 3.6 million. As certain Affected Investors publicly announced claims exceeding that amount and since there is a possibility that NLB has not yet been notified of all the legal proceedings initiated against it in December 2016, this amount may increase in the course of time and such additional claims may be material.

Provisions for any of these claims have not been recorded because the Management Board believes that it is not probable that these claims will result in liabilities for NLB due to a lack of substantive grounds for such claims. Accordingly, an unfavourable outcome in any of these pending proceedings may result in a substantial loss to NLB.

#### **Other monetary claims involving substantial amounts**

The NLB Group members are involved in other legal proceedings involving substantial monetary claims. Some of these proceedings are briefly described below. Based on an assessment of the probable outcome of this proceeding, NLB Group has not established any provisions in its financial statements for the proceeding described below.

In April 2017, a Montenegrin court imposed a temporary injunction preventing NLB Montenegro from disposing of certain real estate properties acquired by NLB Montenegro as a result of the enforcement of security related to a non-performing loan which was underwritten in 2009. The loan was also guaranteed by the state of Montenegro for an amount of up to EUR 4.5 million. The loan defaulted in 2010. In 2014, as part of NLB Group's review of exposures to large non-performing loans, NLB Montenegro discovered certain irregularities in the loan underwriting process and filed a criminal charge against anonymous persons in this case in 2014; however, to the best knowledge of NLB, the authorities in Montenegro did not pursue the investigation at the time. Based on information currently available to NLB, the temporary injunction granted in 2017 is related to an alleged criminal abuse of authority by several individuals, including employees of the government of Montenegro and, among others, a former member of the management board of NLB Montenegro. The mandate of this former member of the management board expired in 2011. Among other things, the criminal proceedings may focus on the validity of the issuance of the guarantee by Montenegro in 2010. On 24 September 2018, NLB was informed that NLB Montenegro received a formal indictment from the Special Prosecutor's Office of Montenegro which was filed with the High Court of Montenegro, in which, in addition to five other persons, this former member of the management board and NLB Montenegro, as a legal entity, were charged on suspicion of a criminal offence for the misuse of their position. The indictment is confirmed and after several postponements, the preparatory hearing has taken place and the date of the main trial is still unknown. If it were determined that an abuse of authority was carried out in the name of NLB Montenegro, it could be found liable as a

legal entity and possibly incur a financial penalty. Under Montenegrin law, there are a range of potential penalties for such a criminal offence, including a suspended sentence and also a fine (based on the incurred damage or the gained profit) which can range from *de minimis* amounts up to a multiple of the profits gained as may be determined by the court. The determination of the penalty depends on the particular circumstances of the case, as the law allows the court to take into consideration, among other things, the previous conduct of the legal person and its previous compliance with the relevant legislation, the conduct of the legal person after the criminal offence was committed (including the remedial measures it undertook) and, in particular, if the legal person notified the relevant authorities of the events of the case. According to the indictment, the profits gained amount to EUR 6,651,611.09. Pursuant to the laws of Montenegro, a legal entity may be exempted from punishment or penalties if it voluntarily filed a criminal charge prior to having knowledge of a related investigation. In addition, because in such an instance the court may exempt the legal entity from any punishment, the law also necessarily allows the court to reduce the fines without any limitation. NLB Montenegro initiated the filing of a criminal charge against persons-then-unknown in 2014 and it does not believe that it should be subject to fines in relation to these proceedings, and therefore has made no provisions in relation to these proceedings. However, there can be no assurance that the High Court of Montenegro would not take a different position.

Other substantial claims against the members of the NLB Group include a claim in an amount equivalent to approximately EUR 79 million against Optima Leasing d.o.o., Zagreb, relating to compensation for damages because the defendant prevented the plaintiff from performing its business activity, and a claim against Prvi faktor faktoring d.o.o. Beograd (a subsidiary of a joint-venture of NLB and SID Banka) in an amount equivalent to approximately EUR 50 million, relating to compensation for damages caused by the defendant because of the freezing of its account with the defendant and the resulting financial breakdown of the plaintiff. After initiating these lawsuits, bankruptcy proceedings have been opened in relation to both plaintiffs and the plaintiff in the case against Optima Leasing d.o.o. Zagreb no longer exists. Accordingly, both proceedings have been suspended and are only likely to continue if the bankruptcy administrator or, if applicable, a creditor, decides to pursue the claims. NLB believes that these claims are without grounds.

In addition to the legal proceedings described above, the NLB Group members are involved in various other ongoing legal proceedings that have arisen in connection with the ordinary course of business of NLB and the NLB Group.

## ALTERNATIVE PERFORMANCE MEASURES

In this Offering Circular, the Bank uses the following financial measures in the analysis of its business and financial position, which the Bank considers to constitute Alternative Performance Measures for the purposes of the ESMA Guidelines on Alternative Performance Measures. The Bank has chosen to present these, either because they are in common use within the industry or because they are commonly used by investors and as such useful for disclosure. The APMs are used internally to monitor and manage operations of NLB and the NLB Group, and are not considered to be directly comparable with similar key performance indicators presented by other companies. The Bank's APMs are described below together with definitions.

**Cost of risk** - Cost of risk is calculated as the total of net credit impairments and provisions\* from the income statement divided by average net loans to customers\*\*.

|   | <b>NLB Group</b>                          |              |
|---|---|--------------|
|   | <b>30 June</b>                            |              |
|   | <b>2018</b>                               | <b>2019</b>  |
|   | <i>(in millions of Euros, except bps)</i> |              |
| Numerator                                   |   |              |
| Net credit impairments and provisions*..... | (32.3)                                    | (0.3)        |
| Denominator                                 |   |              |
| Average net loans to customers**.....       | 6,964.4                                   | 7,212.2      |
| <b>Cost of risk</b> .....                   | <b>(46) bps</b>                           | <b>0 bps</b> |

\* NLB d.d. internal information. Net credit impairments and provisions - Net credit impairments and provisions (from income statement) are annualized all additional and released impairments on loans and provisions for off balance (from income statement) in the period divided by number of months multiplied by 12.

\*\* NLB d.d. internal information. Average net loans to customers - Average net loans to customers are calculated as balances (31.12.) of previous year sum up with sum of monthly balances of the last day of each month from January to month t divided by (t+1).

**Cost to income ratio (CIR)** - Indicator of cost efficiency calculated as the ratio between total costs and total net operating income.

|   | <b>NLB Group</b>                                |              |                |              |
|---|---|--------------|----------------|--------------|
|   | <b>31 December</b>                              |              | <b>30 June</b> |              |
|   | <b>2017</b>                                     | <b>2018</b>  | <b>2018</b>    | <b>2019</b>  |
|   | <i>(in millions of Euros, except per cent.)</i> |              |                |              |
| Numerator                               |   |              |                |              |
| Total cost.....                         | 284.7   | 288.7        | 140.0          | 141.4        |
| Denominator                             |   |              |                |              |
| Total net operating income.....         | 487.7   | 493.3        | 243.0          | 257.4        |
| <b>Cost to income ratio (CIR)</b> ..... | <b>58.4%</b>                                    | <b>58.5%</b> | <b>57.6%</b>   | <b>54.9%</b> |

|   | <b>NLB</b>                                      |              |                |              |
|---|---|--------------|----------------|--------------|
|   | <b>31 December</b>                              |              | <b>30 June</b> |              |
|   | <b>2017</b>                                     | <b>2018</b>  | <b>2018</b>    | <b>2019</b>  |
|   | <i>(in millions of Euros, except per cent.)</i> |              |                |              |
| Numerator                               |   |              |                |              |
| Total cost.....                         | 175.9   | 179.0        | 85.8           | 86.8         |
| Denominator                             |   |              |                |              |
| Total net operating income.....         | 330.1   | 323.4        | 183.4          | 215.0        |
| <b>Cost to income ratio (CIR)</b> ..... | <b>53.3%</b>                                    | <b>55.3%</b> | <b>46.8%</b>   | <b>40.4%</b> |

**FVTPL** - Financial assets measured mandatorily at fair value through profit or loss (FVTPL) are not classified into stages and are therefore shown separately (before deduction of fair value for credit risk; loans with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding).

**IFRS 9** classification into stages for loan portfolio:

IFRS 9 requires an expected loss model, where an allowance for the expected credit losses (ECL) are formed. Loans measured at amortised costs (AC) are classified into the following stages (before deduction of loan loss allowances):

- Stage 1** – A performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on a 12-month period;
- Stage 2** – An underperforming portfolio: a significant increase in credit risk since initial recognition, NLB Group recognises an allowance for a lifetime period;
- Stage 3** – An impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. Definition on default is harmonised with EBA guidelines.

A significant increase in credit risk is assumed: when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition; when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment); if NLB Group expects to grant the client forbearance or if the client is placed on the watch list.

The remaining minor part (0.4 per cent. June 2019; 0.5 per cent. December 2018) represents fair value loans through P&L (FVTPL). Classification into stages is calculated in internal data source, by which the NLB Group measures the loan portfolio quality and is also published in Business Report of Annual and Interim Reports.

|   | <b>NLB Group</b>                                    |                         |
|---|---|-------------------------|
|   | <b>31 December<br/>2018</b>                         | <b>30 June<br/>2019</b> |
|   | <i>(in millions of Euros,<br/>except per cent.)</i> |                         |
| Numerator                                       |   |                         |
| Total (AC) loans in Stage 1.....                | 7,817   | 7,931                   |
| Denominator                                     |   |                         |
| Total gross loans and advances.....             | 9,017   | 8,988                   |
| <b>IFRS 9 classification into Stage 1</b> ..... | <b>86.7%</b>  | <b>88.2%</b>            |

|   | <b>NLB Group</b>                                    |                         |
|---|---|-------------------------|
|   | <b>31 December<br/>2018</b>                         | <b>30 June<br/>2019</b> |
|   | <i>(in millions of Euros,<br/>except per cent.)</i> |                         |
| Numerator                                       |   |                         |
| Total (AC) loans in Stage 2.....                | 578   | 514                     |
| Denominator                                     |   |                         |
| Total gross loans and advances.....             | 9,017   | 8,988                   |
| <b>IFRS 9 classification into Stage 2</b> ..... | <b>6.4%</b>   | <b>5.7%</b>             |

|   | <b>NLB Group</b>                                    |                         |
|---|---|-------------------------|
|   | <b>31 December<br/>2018</b>                         | <b>30 June<br/>2019</b> |
|   | <i>(in millions of Euros,<br/>except per cent.)</i> |                         |
| Numerator                                       |   |                         |
| Total (AC) loans in Stage 3.....                | 573   | 503                     |
| Denominator                                     |   |                         |
| Total gross loans and advances.....             | 9,017   | 8,988                   |
| <b>IFRS 9 classification into Stage 3</b> ..... | <b>6.4%</b>   | <b>5.6%</b>             |

**Liquidity coverage ratio** - Liquidity coverage ratio refers to high liquid assets held by the financial institution to cover its net liquidity outflows over a 30-calendar day stress period.

The Liquidity Coverage Ratio requires financial institutions to maintain a sufficient reserve of high-quality liquid assets (HQLA) to withstand a crisis that puts their cash flows under pressure. The assets to hold must equal to or greater than their net cash outflow over a 30-calendar-day stress period (having at least 100% coverage). The parameters of the stress scenario are defined under Basel III guidelines. Below presented calculations are based on internal data sources.

|                            | <b>NLB Group</b>                                    |                         |
|----------------------------|---|-------------------------|
|                            | <b>31 December<br/>2018</b>                         | <b>30 June<br/>2019</b> |
|                            | <i>(in millions of Euros,<br/>except per cent.)</i> |                         |
| Numerator                  |   |                         |
| Stock of HQLA.....         | 3.151   | 3.308                   |
| Denominator                |   |                         |
| Net liquidity outflow..... | 873   | 963                     |
| <b>LCR</b> .....           | <b>361%</b>   | <b>344%</b>             |

Note: Based on the European Commission's Delegated Act on LCR

**Net Loan to deposit ratio (LTD)** - The ratio between loans to customers and deposits from customers.

|                                    | <b>NLB Group</b>                                    |                         |
|------------------------------------|---|-------------------------|
|                                    | <b>2018</b>   | <b>30 June<br/>2019</b> |
|                                    | <i>(in millions of Euros,<br/>except per cent.)</i> |                         |
| Numerator                          |   |                         |
| Loans to customers .....           | 7,059.0   | 7,280.8                 |
| Denominator                        |   |                         |
| Deposits from customers.....       | 10,018.0  | 10,753.5                |
| <b>Loan to deposit ratio</b> ..... | <b>70.5%</b>  | <b>67.7%</b>            |

**Net interest margin** - Calculated on the basis of interest bearing assets (Annualized net interest income divided by average gross interest bearing assets).

|  | <b>NLB Group</b>                                    |                         |
|--|---|-------------------------|
|  | <b>2018</b>   | <b>30 June<br/>2019</b> |
|  | <i>(in millions of Euros,<br/>except per cent.)</i> |                         |
| Numerator                                    |   |                         |
| Net interest income*.....                    | 305.9   | 320.7                   |
| Denominator                                  |   |                         |
| Average gross interest bearing assets**..... | 12,107.0  | 12,617.0                |
| <b>Net interest margin</b> .....             | <b>2.53%</b>  | <b>2.54%</b>            |

\* Annualized net interest income is calculated as sum of interest income and interest expenses in the period divided by number of days in period and multiplied by number of days in the year.

\*\* NLB d.d. internal information. Average gross interest bearing assets are calculated for the NLB Group as sum of gross interest bearing assets as at the end of previous year and monthly balances in the period (from January to month t) divided by (t+1). Average gross interest bearing assets are calculated for the NLB as sum of gross interest bearing assets as at the end of previous year and daily balances in the period (from January to month t) divided by (t+1).

**NPE** - NPE includes risk exposure to D and E rated clients (includes loans and advances, debt securities and off-balance exposures, which are included in report Finrep 18; before deduction of allowances for the expected credit losses).

**NPE per cent.** - NPE per cent. in accordance with EBA methodology: NPE as a percentage of all exposures to clients in Finrep18, before deduction of allowances for the expected credit losses; ratio in gross terms.

Where Non-Performing Exposure includes risk exposure to D and E rated clients (includes loans and advances, debt securities and off-balance exposures, which are included in report Finrep 18; before deduction of allowances for the expected credit losses). Share of NPEs is calculated on the basis of internal data source, by which the NLB Group monitors the portfolio quality.

Basel III guidelines. Below presented calculations are based on internal data sources.

|                                    | <b>NLB Group</b>                                |                             |                         |
|------------------------------------|---|-----------------------------|-------------------------|
|                                    | <b>30 June<br/>2018</b>                         | <b>31 December<br/>2018</b> | <b>30 June<br/>2019</b> |
|                                    | <i>(in millions of Euros, except per cent.)</i> |                             |                         |
| Numerator                          |   |                             |                         |
| Total Non-Performing Exposure..... | 819   | 675                         | 606                     |
| Denominator                        |   |                             |                         |
| Total exposures in Finrep18.....   | 14,152  | 14,410                      | 14,816                  |
| <b>NPE per cent.</b> .....         | <b>5.8%</b>                                     | <b>4.7%</b>                 | <b>4.1%</b>             |

**NPL** - Non-performing loans include loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

**NPL per cent.** - Share of non-performing loans in total loans: non-performing loans as a percentage of total loans to clients before deduction of loan loss allowances; ratio in gross terms. Where non-performing loans are defined as loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances). Share of non-performing loans is calculated on the basis of internal data source, by which the NLB Group monitors the loan portfolio quality.

|                                     | <b>NLB Group</b>                                |                         |
|-------------------------------------|---|-------------------------|
|                                     | <b>31 December<br/>2018</b>                     | <b>30 June<br/>2019</b> |
|                                     | <i>(in millions of Euros, except per cent.)</i> |                         |
| Numerator                           |   |                         |
| Total Non-Performing Loans.....     | 622   | 542                     |
| Denominator                         |   |                         |
| Total gross loans and advances..... | 9,017   | 8,988                   |
| <b>NPL per cent.</b> .....          | <b>6.9%</b>                                     | <b>6.0%</b>             |

**NPL coverage ratio 1** - The coverage of the gross non-performing loans portfolio with loan loss allowances on the entire loan portfolio - loan impairment in respect of non-performing loans. This is currently one of the most relevant indicators in the banking sector and it shows the level of credit provisions that the entity has already absorbed into its profit and loss accounts in respect of the total of impaired loans. NPL coverage ratio 1 is calculated on the basis of internal data source, by which the NLB Group monitors the quality of loan portfolio.

|   | <b>NLB Group</b>                                |                         |
|---|---|-------------------------|
|   | <b>31 December<br/>2018</b>                     | <b>30 June<br/>2019</b> |
|   | <i>(in millions of Euros, except per cent.)</i> |                         |
| Numerator                                       |   |                         |
| Loan loss allowances entire loan portfolio..... | 480   | 441                     |
| Denominator                                     |   |                         |
| Total Non-Performing Loans.....                 | 622   | 542                     |
| <b>NPL coverage ratio 1 (NPL CR 1)</b> .....    | <b>77.1%</b>                                    | <b>81.2%</b>            |

**NPL coverage ratio 2** - The coverage of the gross non-performing loans portfolio with loan loss allowances on the non-performing loans portfolio. NPL coverage ratio 2 is calculated on the basis of internal data source, by which the NLB Group monitors the loan portfolio quality.

|   | <b>NLB Group</b>                                |                         |
|---|---|-------------------------|
|   | <b>31 December<br/>2018</b>                     | <b>30 June<br/>2019</b> |
|   | <i>(in millions of Euros, except per cent.)</i> |                         |
| Numerator   |   |                         |
| Loan loss allowances non-performing loans loan portfolio..... | 402   | 359                     |
| Denominator   |   |                         |
| Total Non-Performing Loans.....                               | 622   | 542                     |
| <b>NPL coverage ratio 2 (NPL CR 2)</b> .....                  | <b>64.6%</b>                                    | <b>66.2%</b>            |

**Net stable funding ratio** - The net stable funding ratio is a liquidity risk standard requiring financial institutions to hold enough stable funding to cover the duration of their long-term assets.

The Net Stable Funding ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding, and is based on the current Basel Committee guidelines. This ratio should be equal to at least 100% on an on-going basis. »Available stable funding« is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance-sheet (OBS) exposures. Below presented calculations are based on internal data sources.

|  | <b>NLB Group</b>                                    |                         |
|--|---|-------------------------|
|  | <b>31 December<br/>2018</b>                         | <b>30 June<br/>2019</b> |
|  | <i>(in millions of Euros,<br/>except per cent.)</i> |                         |
| Numerator                                |   |                         |
| Amount of available stable funding ..... | 10,994  | 11,225                  |
| Denominator                              |   |                         |
| Amount of required stable funding .....  | 6,929   | 7,254                   |
| <b>NSFR</b> .....                        | <b>159%</b>   | <b>155%</b>             |

**Return on equity after tax (ROE a.t.)** - Return on equity ratio is equal to a fiscal year profit after tax, divided by average total equity, as a percentage.

|                              | <b>NLB Group</b>                                |              |              |                         |
|------------------------------|---|--------------|--------------|-------------------------|
|                              | <b>31 December<br/>2017</b>                     | <b>2018</b>  | <b>2018</b>  | <b>30 June<br/>2019</b> |
|                              | <i>(in millions of Euros, except per cent.)</i> |              |              |                         |
| Numerator                    |   |              |              |                         |
| Profit after tax* .....      | 225.1   | 203.6        | 209.7        | 188.7                   |
| Denominator                  |   |              |              |                         |
| Average total equity** ..... | 1,566.7   | 1,729.9      | 1,739.3      | 1,656.6                 |
| <b>ROE a.t.</b> .....        | <b>14.4%</b>                                    | <b>11.8%</b> | <b>12.1%</b> | <b>11.4%</b>            |

|                              | <b>NLB</b>                                      |              |              |                         |
|------------------------------|---|--------------|--------------|-------------------------|
|                              | <b>31 December<br/>2017</b>                     | <b>2018</b>  | <b>2018</b>  | <b>30 June<br/>2019</b> |
|                              | <i>(in millions of Euros, except per cent.)</i> |              |              |                         |
| Numerator                    |   |              |              |                         |
| Profit after tax* .....      | 189.1   | 165.3        | 206.7        | 245.1                   |
| Denominator                  |   |              |              |                         |
| Average total equity** ..... | 1,310.1   | 1,426.8      | 1,443.3      | 1,332.0                 |
| <b>ROE a.t.</b> .....        | <b>14.4%</b>                                    | <b>11.6%</b> | <b>14.3%</b> | <b>18.4%</b>            |

\* Annualized profit for the year. Calculated as Profit after tax divided by number of months for reporting period divided by 12.

\*\* NLB d.d. internal information. Average total equity is calculated as sum of total equity as at end of previous year and sum of monthly balances (on the last day of each month) of Equity (from January to month t) divided by (t+1).

**Total capital ratio (TCR)** - Total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

|  | <b>NLB</b>                                      |                         | <b>NLB Group</b>        |                                 |                         |
|--|---|-------------------------|-------------------------|---------------------------------|-------------------------|
|  | <b>31<br/>December<br/>2018</b>                 | <b>30 June<br/>2019</b> | <b>30 June<br/>2018</b> | <b>31<br/>December<br/>2018</b> | <b>30 June<br/>2019</b> |
|  | <i>(in millions of Euros, except per cent.)</i> |                         |                         |                                 |                         |
| Numerator                              |   |                         |                         |                                 |                         |
| Total capital (Own funds) .....        | 1,208.3   | 1,185.7                 | 1,623.1                 | 1,453.4                         | 1,469.9                 |
| Denominator                            |   |                         |                         |                                 |                         |
| Total risk exposure Amount (RWA) ..... | 5,023.6   | 5,223.8                 | 8,692.8                 | 8,677.6                         | 8,935.2                 |
| <b>TCR</b> .....                       | <b>24.1%</b>                                    | <b>22.7%</b>            | <b>18.7%</b>            | <b>16.7%</b>                    | <b>16.5%</b>            |



## TAXATION

*The following is a general overview of certain tax considerations relating to the purchasing, holding and disposing of Notes. It does not purport to be a legal opinion or a complete analysis of all tax considerations relating to the Notes. In particular, this discussion does not consider any specific facts or circumstances that may apply to a particular Noteholder. The discussions that follow for each jurisdiction are based upon the applicable laws in force and their interpretation on the date of this Offering Circular. These tax laws and interpretations are subject to change that may occur after such date, even with retroactive effect.*

The information contained in this section is limited to taxation issues and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Prospective holders of Notes (the "**Noteholders**" and each a "**Noteholder**") should consult their own tax advisers as to the particular tax consequences of subscribing, purchasing, holding and disposing the Notes, including the application and effect of any federal, state or local taxes, under the tax laws of each country of which they are residents or citizens.

### **Taxation in Slovenia**

#### ***Taxation of interest income***

##### *Withholding tax*

Taxation of interest income derived from the Notes will differ depending on whether, at the time when the Issuer will make payments of interest under the Notes, the Notes will be admitted to trading on a regulated market or a multilateral trading facility ("**MTF**") within an EU member state or OECD (the Notes, while so admitted to trading, hereinafter referred as "**Listed Securities**").

If, and for as long as the Notes qualify as Listed Securities, the Issuer will be entitled to make all payments of interest under the Notes free and clear of any withholding or deduction for or on account of taxes pursuant to applicable Slovenian law.

If, however, at the time when the Issuer will make a payment of interest under the Notes, the Notes do not qualify as Listed Securities, then such payment will be subject to withholding tax payable by the Issuer at the maximum rate applicable under Slovenian taxation law (currently being 25 per cent., to be increased to 27.5 per cent. in 2020), whereupon:

- (a) in the event that the beneficial owner of such interest is:
  - (i) an individual resident for taxation purposes in the Republic of Slovenia; or
  - (ii) an individual resident for taxation purposes outside the Republic of Slovenia who does not benefit from a reduced tax rate under applicable law or double taxation treaty;the amount of tax so withheld shall be the final tax imposed by the Republic of Slovenia on the relevant amount of interest; and
- (b) in any other case, the beneficial owner of such interest will be entitled to claim from the Slovenian tax administration a refund the amount by which the amount actually withheld exceeds the amount calculated at the rate applicable to such beneficial owner, being:
  - (i) 0 per cent. in the case where the beneficial owner of such interest is a legal person, other than a legal person resident for taxation purposes in a non-EU jurisdiction where the general or average nominal income tax rate is lower than 12.5 per cent. and which is included in the list of "tax havens" published from time to time by the Ministry of Finance of the Republic of Slovenia;
  - (ii) the reduced rate applicable under the applicable law or double taxation treaty, where the beneficial owner of such interest is an individual entitled to benefit from such reduced tax rate; or

- (iii) 15 per cent. where the beneficial owner of such interest is a legal person resident for taxation purposes in a non-EU jurisdiction where the general or average nominal income tax rate is lower than 12.5 per cent. and which is included in the list of "tax havens" published from time to time by the Ministry of Finance of the Republic of Slovenia.

#### *Other methods of taxation*

Interest on the Notes received by (a) a legal person resident for taxation purposes in the Republic of Slovenia or (b) a permanent establishment (*poslovna enota*) in the Republic of Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia will be subject to Slovenian tax as a part of the net annual income of such legal person or permanent establishment, being Corporate Income Tax (*davek od dohodkov pravnih oseb*) which is currently levied at the rate of 19 per cent.:

Any individual who is liable for Slovenian Personal Income Tax on interest income under the Notes and receives an amount of interest under the Notes free of any deduction for account of this tax shall (i) declare each amount so received and (ii) pay the amount of tax in accordance with the relevant decision of the tax authorities.

#### **Taxation of capital gains**

##### *Legal Persons*

Capital gains earned on the sale or disposition of the Notes by a legal person resident for taxation purposes in the Republic of Slovenia or a permanent establishment (*poslovna enota*) in the Republic of Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia will be subject to Slovenian Corporate Income Tax as a part of its overall income tax (currently levied at the rate of 19 per cent.).

Capital gains earned by legal persons not resident for taxation purposes in the Republic of Slovenia and having no permanent establishment (*poslovna enota*) in the Republic of Slovenia are not subject to Slovenian taxation.

##### *Individuals*

Under the Slovenian Personal Income Tax Act (*Zakon o dohodnini (ZDoh-2)*), capital gains from the sale or other disposition of debt securities held as non-business assets are in general exempt from taxation, while capital gains earned as business income (*dohodek iz dejavnosti*) of an individual resident for taxation purposes in the Republic of Slovenia may be subject to Slovenian Personal Income Tax as a part of such individual's overall annual business income at the rate applicable in accordance with the progressive tax scale which may reach up to 50 per cent.

Capital gains earned on the sale or disposition of the Notes by an individual resident for taxation purposes in the Republic of Slovenia may, in circumstances described in the Act on the Taxation of Profits from the Disposal of Derivatives (*Zakon o davku od dobička od odsvojitve izvedenih finančnih instrumentov (ZDDOIFI)*), be subject to tax levied at the rate of up to 40 per cent.

##### *Value Added Tax*

Pursuant to Value Added Tax Act (*Zakon o davku na dodano vrednost (ZDDV-1)*), transactions with securities are VAT-exempt in the Republic of Slovenia. According to the law, interest on debt securities is not subject to VAT, thus VAT is neither charged nor payable.

##### *Inheritance and gift taxations*

Natural persons and private law entities, within the meaning of the Slovenian Inheritance and Gift Tax Act (*Zakon o davku na dediščine in darila (ZDDD)*) may be subject to Slovenian inheritance and gift tax in case of the transfer of the Notes mortis causa or inter vivos. The value of all transfers by the same person in one year is considered when ascertaining the taxable amount for such purposes.

Inheritance tax and gift tax is assessed by reference to the market value of property subject to taxation at the time of the occurrence of tax liability, decreased by debts, costs and charges relating to this property. In the case of movable property (such as the Notes), the tax base for inheritances and gifts is decreased by Euro 5,000.

Tax on inheritance and gifts is not paid by the heir or recipient of a gift of a first hereditary order (children and spouse).

Tax rates are progressive and differ depending on the hereditary order. Tax rates for inheritance and gift tax range:

- from 5 per cent. up to 14 per cent. for the second hereditary order (parents, siblings and their descendants);
- from 8 per cent. up to 17 per cent. for the third hereditary order (grandparents); and
- from 12 per cent. up to 39 per cent. for all subsequent hereditary orders (others).

#### **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such.

However, if additional notes (as described under "Terms and Conditions—Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE OF THE NOTES

### Subscription by the Joint Lead Managers

UBS Europe SE and Nova Ljubljanska banka d.d., Ljubljana (the "**Joint Lead Managers**") and the Issuer will enter into a subscription agreement on or about 15 November 2019 (the "**Subscription Agreement**") in which the Joint Lead Managers agree to subscribe for the Notes on a firm commitment basis. The Joint Lead Managers will be entitled, under certain circumstances, to terminate the Subscription Agreement. In such event, no Notes will be delivered to investors.

The Issuer will agree in the Subscription Agreement to indemnify UBS Europe SE against certain liabilities in connection with the offer and sale of the Notes. The Issuer has furthermore agreed to pay certain fees to the UBS Europe SE in connection with the offering, placement and subscription of the Notes and to reimburse the UBS Europe SE for certain expenses incurred in connection with the issue of the Notes.

### Selling Restrictions

#### General

The Joint Lead Managers have acknowledged that other than explicitly mentioned in this Offering Circular no action is taken or will be taken by the Issuer in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of any offering material relating to them, in any jurisdiction where action for that purpose is required.

The Joint Lead Managers have represented and agreed that it will comply with all applicable laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes any offering material relating to them.

#### European Economic Area

In relation to each Member State of the European Economic Area (each, a "**Member State**"), the Joint Lead Managers have represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II (as amended); or
- (b) a customer within the meaning of Directive 2016/97/EU, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

#### United States of America and its Territories

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("**Regulation S**").

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by the U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

The Joint Lead Managers have represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

**United Kingdom of Great Britain and Northern Ireland**

The Joint Lead Managers have represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## GENERAL INFORMATION

**Interest of Natural and Legal Persons involved in the Issue/Offer:** UBS and its affiliates may be customers of, borrowers from or creditors of the Issuer and/or its affiliates. In addition, UBS and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and/or its affiliates in the ordinary course of business.

**Authorisations:** The creation and issue of the Notes has been authorised by a resolution of the Supervisory Board of the Issuer dated 21 October 2019 and resolutions of the Management Board of the Issuer dated 4 November 2019.

**Legal Entity Identifier:**

The legal entity identifier (LEI) of the Issuer is: 5493001BABFV7P27OW30

**Expenses of the Issue:** The total expenses related to the admission to trading of the Notes are expected to amount EUR 6,600.

**Clearing System:** The Notes have been accepted for clearing and settlement through Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium and Clearstream Banking, S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

The Notes have the following securities codes:

ISIN: XS2080776607

Common Code: 208077660

**Listing and Admission to Trading:** Application has been made for the Notes to be admitted to the official list of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange. The Euro MTF market of the Luxembourg Stock Exchange is not a regulated market for the purposes of MIFID II.

**Documents on Display:** For so long as any Note is outstanding, electronic versions of the following documents are available for viewing in electronic form at the website of the Issuer ([www.nlb.si](http://www.nlb.si)):

- (a) the Articles of Incorporation of the Issuer; and
- (b) the Documents specified in the section "Documents incorporated by reference" below.

This Offering Circular and all documents incorporated by reference will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

**Third Party Information:** With respect to any information included herein and specified to be sourced from a third party (i) the Issuer confirms that any such information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information available to it from such third party, no facts have been omitted the omission of which would render the reproduced information inaccurate or misleading and (ii) neither the Issuer nor the Joint Lead Managers has independently verified any such information and neither the Issuer nor the Joint Lead Managers accepts any responsibility for the accuracy thereof.

**Yield:** For the investors, the yield of the Notes until the Reset Date is 3.650 per cent. per annum, calculated on the basis of the Issue Price.

Such yields are calculated in accordance with the ICMA (International Capital Markets Association) Method. The ICMA method determines the effective interest rate on notes by taking into account accrued interest on a daily basis.

The yield of the Notes for the Reset Periods thereafter cannot be determined as of the date of this Offering Circular.

**Material Change:** there has been no material adverse change in the prospects or the financial position of the Issuer since 30 June 2019.

**Ratings:**

The Issuer has received the following ratings:

| <b>International credit ratings NLB</b> | <b>30 June 2019</b> | <b>31 December 2018</b> | <b>Outlook</b> |
|---|---------------------|-------------------------|----------------|
| Standard & Poor's .....                 | BBB-                | BB+                     | Stable         |
| Fitch .....                             | BB+                 | BB+                     | Stable         |
| Moody's** .....                         | Baa2                | Baa2                    | Positive       |

\* On 17 May 2019 Standard and Poor's raised NLB's credit rating by one notch to BBB- from BB+, a move that takes it to the investment grade. The Outlook is stable.

\*\* Unsolicited rating.

The Notes are expected to be rated as follows:

- BB by Standard and Poor's

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Offering Circular and which have been filed with the Luxembourg Stock Exchange are incorporated by reference into this Offering Circular:

- (i) the section entitled "*Audited Financial Statements of NLB Group and NLB*" on pages 178 to 343 of the NLB Group Annual Report, containing the audited consolidated financial statements of the Issuer and the independent auditor's report thereon, in respect of the financial year ended 31 December 2017;
- (ii) the section entitled "*Financial Statements*" on pages 165 to 343 of the NLB Group Annual Report, containing the audited consolidated financial statements of the Issuer and the independent auditor's report thereon, in respect of the financial year or the year ended 31 December 2018;
- (iii) the section entitled "*Condensed Interim Financial Statements of NLB Group and NLB*", of the NLB Group Interim Report Q1 2019, containing the unaudited consolidated financial statements of the Issuer in respect of the three months ended 31 March 2019; and
- (iv) the section entitled "*Unaudited Condensed Interim Financial Statements of NLB Group and NLB*" on pages 48 to 84 of the NLB Group Interim Report H1 2019, containing the unaudited consolidated financial statements of the Issuer in respect of the six months ended 30 June 2019 (the "**NLB Group Interim Report H1 2019**").

Any information not incorporated by reference into this Offering Circular but contained in one of the documents mentioned as source documents in the list above is either not relevant for the investor or covered in another part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained (without charge) from the website of the Issuer ([www.nlb.si](http://www.nlb.si)) and the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

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